Consolidated Financial Statements of

ECOTRUST CANADA

Year ended December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Directors

We have audited the accompanying consolidated financial statements of Ecotrust Canada, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ecotrust Canada as at December 31, 2013 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

June 11, 2014

Burnaby, Canada

ECOTRUST CANADA

Consolidated Statement of Financial Position

December 31, 2013, with comparative information for 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 156,027	$ 775,881
Accounts receivable (note 3)	524,705	377,241
GST receivable	-	4,596
Short-term investments	2,972	17,837
Inventory	39,528	52,319
Prepaid expenses	25,506	45,560
Current portion of loans receivable (note 5)	15,000	-
	763,738	1,273,434
Loans receivable, net of valuation allowance of $539,673 (2012 - $493,673) (note 5)	1,154,364	1,292,053
Capital assets (note 6)	70,204	114,236
	$ 1,988,308	$ 2,679,723
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 176,344	$ 192,678
GST payable	8,028	-
Deferred contributions (note 7)	140,423	391,632
Deferred revenue	26,930	31,804
Current portion of loans payable (note 9)	199,000	209,000
	550,725	825,114
Deferred capital contribution (note 8)	17,611	47,801
Net assets	1,419,972	1,806,808
Commitments (note 10)		
	$ 1,988,308	$ 2,679,723

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

_______________ Director _______________ Director

ECOTRUST CANADA

Consolidated Statement of Operations

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Revenue:		
Contributions	$ 1,114,574	$ 1,249,620
Consulting	1,055,572	883,386
Dividend and investment income	616	74,780
Other income	46,685	91,610
	2,217,447	2,299,396
Expenses:		
Amortization	68,001	63,125
Audit and legal	68,185	53,737
Bad debts (recovery)	(53,063)	20,533
Bank charges and interest	23,912	11,085
Contracts and consulting	441,912	454,146
Donations	500	875
Dues and memberships	57,711	8,575
Foreign exchange loss (gain)	(10,140)	7,930
Insurance	11,166	10,043
Loss on disposal of capital assets	2,279	-
Occupancy and utilities	77,037	91,099
Office	29,776	30,222
Other	(17)	(23)
Printing	15,079	19,785
Repairs	36,991	18,888
Salaries and benefits	1,454,767	1,533,841
Supplies	24,188	19,648
Telephone	41,815	42,687
Training and recruitment	4,799	10,137
Travel	183,385	230,413
	2,478,283	2,626,746
Deficiency of revenue over expenses before impairment	(260,836)	(327,350)
Impairment of loans receivable	(126,000)	-
Deficiency of revenue over expenses	$ (386,836)	$ (327,350)

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Net assets, beginning of year	$ 1,806,808	$ 2,134,158
Deficiency of revenue over expenses	(386,836)	(327,350)
Net assets, end of year	$ 1,419,972	$ 1,806,808

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash flows provided by (used in):		
Operations:		
Deficiency of revenue over expenses	$ (386,836)	$ (327,350)
Non-cash items:		
Amortization of deferred capital contributions	(30,190)	(30,191)
In-kind donation of short-term investments	(2,964)	(3,033)
Loans payable forgiven	(10,000)	(10,000)
Amortization	68,001	63,125
Equity losses on short-term investments	-	(580)
Loss on disposal of capital assets	250	-
Impairment of loans receivable	126,000	-
Changes in non-cash operating working capital:		
Accounts and GST receivable	(142,868)	93,133
Inventory	12,791	(10,544)
Prepaid expenses	20,054	(28,016)
Accounts payable, accrued liabilities and GST payable	(8,306)	(117,635)
Deferred revenue and deferred contributions	(256,083)	121,510
	(610,151)	(249,581)
Investing:		
Purchase of capital assets	(26,498)	(44,498)
Proceeds of disposition of capital assets	2,277	-
Net dispositions in short-term investments	17,830	-
Repayments of loans receivable	11,688	32,407
Advances of loans receivable	(15,000)	(41,029)
	(9,703)	(53,120)
Decrease in cash and cash equivalents	(619,854)	(302,701)
Cash and cash equivalents, beginning of year	775,881	1,078,582
Cash and cash equivalents, end of year	$ 156,027	$ 775,881

See accompanying notes to consolidated financial statements.

1. Operations:

Ecotrust Canada ("Ecotrust") is federally incorporated under the Canada Business Corporations Act as a non-profit organization. It is a Canada Revenue Agency registered charity (89474 9969-RR001), which is exempt from Canadian income taxes. Ecotrust, in alliance with affiliated organizations in the U.S., promotes the emergence of a conservation economy in the coastal temperate rain forests of British Columbia and, more broadly, North America. Ecotrust supports the work of conservation entrepreneurs, First Nations and community organizations.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Standards in Part III of the CICA Handbook, including the following significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Ecotrust Canada and its wholly owned subsidiary, Ecotrust Canada Capital Corporation. All inter-organizational transactions and balances have been eliminated on consolidation.

Boat Basin Foundation is a controlled not-for-profit organization that has not been consolidated in these financial statements; the assets and liabilities are as disclosed in note 4.

(b) Investments:

Ecotrust uses the equity method as a basis of accounting for investments in for-profit entities over which it exercises significant influence but does not control, jointly or otherwise, as described in note 4. Under the equity method, Ecotrust records these investments initially at cost and the carrying amounts are adjusted thereafter to include Ecotrust's pro-rata share of post-acquisition earnings/losses of the investees, computed by the consolidation method. The adjustments are included in the determination of deficiency of revenue over expenses by Ecotrust, and the investment accounts of Ecotrust are also increased or decreased to reflect Ecotrust's share of capital transactions and changes in accounting policies and corrections of errors relating to prior period financial statements applicable to post-acquisition periods. Profit distributions received or receivable from investees reduce the carrying amounts of the investments. Unrealized intercompany gains or losses are eliminated.

Investments not subject to control or significant influence are recorded at historical cost net of any impairment.

2. Significant accounting policies (continued):

(c) Contributed services:

A substantial number of individuals have contributed significant time and expertise to Ecotrust, especially in projects and research, as well as in operations and fundraising. However, since no objective basis exists for determining fair values, no amounts have been recorded in the consolidated financial statements relating to these services.

(d) Revenue recognition:

Revenue from contributions is recognized using the deferral method. Under this method, restricted contributions and investment income are recognized in the period the related expenses are incurred or the restrictions are met. Contributions for depreciable capital assets are deferred and amortized on the same basis as the underlying asset.

Unrestricted contributions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

(e) Foreign currency transactions:

Ecotrust uses the temporal method to translate foreign currency transactions. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary assets and liabilities are translated at the historical rate. Foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date.

(f) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term deposits with initial maturity terms equal to or less than 90 days.

(g) Accounts and loans receivable:

All accounts and loans receivable are initially recorded at their fair value and subsequently at amortized cost, net of allowances for loan impairment. When a loan is deemed to be impaired, its carrying amount is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the effective interest rate inherent in the loans.

(h) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted-average cost basis and includes all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

2. Significant accounting policies (continued):

(i) Capital assets:

Capital assets are originally recorded at cost. Contributed capital assets are recorded at their fair market value at the date of contribution. Repairs and maintenance costs are charged to expense. When capital assets no longer contributes to Ecotrust, its carrying amount is written down to its residual value.

Amortization is provided on a straight-line basis based over the assets' estimated useful lives using the following rates:

Asset	Years
Furniture and equipment	5 - 7
Computers - hardware and software	3 - 5
Leasehold improvements	Lesser of useful life and remaining lease term

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent liabilities. Areas requiring significant management estimate include the valuation of accounts receivable, valuation of long-term investments, valuation of loans receivable, the fair value of capital asset contributions and the useful lives of capital assets. Actual results could differ from the estimates.

(k) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Ecotrust has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

2. Significant accounting policies (continued):

(k) Financial instruments (continued):

Financial assets carried at cost or amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Ecotrust determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Ecotrust expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Accounts receivable:

	2013	2012
Accounts receivable	$ 667,953	$ 516,148
Less allowance for impairment	(143,248)	(138,907)
	$ 524,705	$ 377,241

4. Long-term investments and controlled entities:

Ecotrust retains an interest in Size Nine and Climate Smart; however, based on the results of these entities' operations and management's assessed impairments, they continue to be recorded at nil (2012 - nil).

(a) As at December 31, 2013, Ecotrust owned 75% of the outstanding shares of Size Nine, a for-profit organization. During 2013, Ecotrust continued to review the assets of Size Nine and, in relation to a secured mortgage due from Size Nine to Vancity, it was determined by management that there were insufficient assets to support the valuation of the investment in Size Nine. As a result, at December 31, 2013 the value of this investment remains nil (2012 - nil). Ecotrust accounts for the investment under the equity method.

(b) As at December 31, 2013, Ecotrust owned 50% of Climate Smart, a for-profit entity. Ecotrust accounts for the investment under the equity method. During 2013, Climate Smart incurred losses of approximately $100,985 (2012 - $123,800) and had an accumulated deficit of approximately $1,119,422 (2012 - $1,018,000) as at that date. As a result, Ecotrust continues to record its investment in Climate Smart at nil (2012 - nil).

4. Long-term investments and controlled entities (continued):

(c) Ecotrust controls Boat Basin Foundation (the "Foundation"), a not-for-profit entity, by virtue of a number of Ecotrust's directors and management forming the majority of the board of directors of the Foundation. Ecotrust does not consolidate the Foundation into these consolidated financial statements. Unaudited financial information of the Foundation as at June 30, 2013 is as follows:

Financial Position

	2013	2012
Assets	$ 2,150,188	$ 2,163,355
Liabilities (i)	$ 1,672,322	$ 1,889,436
Net assets	477,866	273,919
	$ 2,150,188	$ 2,163,355

Results of Operations

	2013	2012
Revenue	$ 252,039	$ 13,741
Expenses	45,297	108,030
	$ 206,742	$ (94,289)

Cash Flows

	2013	2012
Cash from operations	$ 232,974	$ 601,713
Cash used in financing and investing activities:		
Investing	-	6,856
Financing	(240,000)	(600,000)
Increase (decrease) in cash	$ (7,026)	$ 8,569

(i) Included in the Foundation's liabilities is a promissory note payable to Ecotrust Canada in the amount of $726,000 (2012 - $726,000).

5. Loans receivable:

		2013		2012
Pacific Coast Fish Conservation Company ("PCFCC") (a)	$	357,000	$	357,000
Size Nine loan receivable (b)		250,837		250,837
Size Nine other receivable (c)		36,829		48,518
Boat Basin Foundation (d)		726,000		726,000
Other receivables		338,371		403,372
Less valuation allowance		(539,673)		(493,674)
		1,169,364		1,292,053
Less current portion		-15,000		-
	$	1,154,364	$	1,292,053

Ecotrust engages in community development lending through its Natural Capital Fund. The purpose of this fund is to promote environmentally responsible industry and trade for the benefit of economically challenged communities in the coastal British Columbia region. Loans issued are interest bearing with rates ranging from 0% to 7%. Repayment terms vary between two and ten years.

(a) The loan receivable from PCFCC in the amount of $357,000 is non-interest bearing.

(b) The loan receivable from Size Nine relates to a mortgage in the amount of $250,837 (2012 - $250,837). This amount bears interest at prime rate plus 3% and is secured by a second charge over the land and property of Size Nine. Ecotrust has agreed to waive interest in each of the past two years.

(c) The receivable from Size Nine in the amount of $36,829 (2012 - $48,518) is a result of a previous share re-purchase and is non-interest bearing.

(d) The loan receivable from the Foundation in the principal amount of $600,000 (2012 - $600,000), and includes accrued interest in the amount of $126,000 (2012 - $126,000). The loan is secured by a second charge over Boat Basin's real property.

6. Capital assets:

		Cost		Accumulated amortization		2013 Net book value		2012 Net book value
Furniture and equipment	$	67,918	$	53,175	$	14,743	$	5,474
Computers - hardware and software		266,152		217,587		48,565		105,911
Leasehold improvements		14,358		7,462		6,896		2,851
	$	348,428	$	278,224	$	70,204	$	114,236

7. Deferred contributions:

	2013	2012
Balance, beginning of year	$ 391,632	$ 298,826
Contributions received	742,699	1,226,766
Amounts spent and recognized as revenue in the year	(993,908)	(1,133,960)
Balance, end of year	$ 140,423	$ 391,632

8. Deferred capital contributions:

	2013	2012
Balance, beginning of year	$ 47,801	$ 77,992
Amounts recognized as revenue in the year	(30,190)	(30,191)
Balance, end of year	$ 17,611	$ 47,801

9. Loans payable:

	2013	2012
Loan payable to Ethical Investor Group, with interest at 2.5% per annum, interest-only payable annually, unsecured, maturing on December 7, 2015	$ 20,000	$ 20,000
Loan payable to Size Nine, with interest at prime plus 4%, the loan matures on December 15, 2015. Principal is due in full on date of maturity	144,000	144,000
Loan payable to Illahie Foundation, with interest at 2% per annum, due semi-annually, unsecured Scheduled principal repayments are $10,000 per annum. Principal is due in full on December 7, 2014	35,000	45,000
	199,000	209,000
Less current portion	199,000	209,000
Non-current	$ -	$ -

9. Loans payable (continued):

All loans payable are repayable on demand and, as a result, have been classified as current

Scheduled principal repayments are as follows:

2014	$	35,000
2015		164,000
	$	199,000

10. Commitments:

(a) Ecotrust Canada leases office spaces and property under various lease agreements. Rental payments for the years ending December 31 are as follows:

2014	$	68,672
2015		4,831
2016		200

(b) Ecotrust Canada has access to a $250,000 operating line of credit, with interest at prime plus 2% per annum. No amounts were drawn on this line of credit at December 31, 2013 (2012 - nil).

11. Related party transactions:

In addition to related party amounts disclosed elsewhere in these consolidated financial statements, Ecotrust has paid $14,631 (2012 - $20,692) of expenses on behalf of the investee companies, which have not been reimbursed to date.

12. Financial risks and concentration of risks:

(a) Liquidity risk:

Liquidity risk is the risk that Ecotrust will be unable to fulfill its obligations on a timely basis or at a reasonable cost. Ecotrust manages its liquidity risk by monitoring its operating requirements. Ecotrust prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2013.

(b) Interest rate risk:

Ecotrust is exposed to interest rate risk on its fixed and floating interest rate loans payable. Fixed-interest loans payable subject Ecotrust to a fair value risk while the floating-rate loans payable subject it to a cash flow risk. Further details about the loans payable are included in note 9.