

Consolidated Financial Statements of

ECOTRUST CANADA

Year ended December 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Members of Ecotrust Canada

We have audited the accompanying consolidated financial statements of Ecotrust Canada, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of operations and 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 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, 2017 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 Professional Accountants

Burnaby, Canada
June 5, 2018

ECOTRUST CANADA

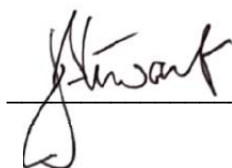
Consolidated Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 762,576	\$ 374,890
Accounts receivable (note 3)	372,207	379,508
Inventory	34,600	35,095
Prepaid expenses	98,549	75,408
	<u>1,267,932</u>	<u>864,901</u>
Investments and loans receivable (note 5)	443,741	687,193
Tangible and intangible capital assets (note 6)	108,547	172,211
	<u>\$ 1,820,220</u>	<u>\$ 1,724,305</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 223,713	\$ 189,747
Goods and service tax payable	-	5,678
Deferred contributions (note 7)	492,058	334,038
Deferred revenue	112,989	142,178
Demand loans payable (note 8)	118,673	118,673
Tenants' deposit liability	23,228	26,796
Current portion of obligations under capital lease (note 9)	2,199	4,843
	<u>972,860</u>	<u>821,953</u>
Deferred lease liability	45,588	57,588
Lease inducement	68,103	103,367
Obligations under capital lease (note 9)	-	2,199
Deferred capital contributions (note 10)	9,467	14,926
	<u>1,096,018</u>	<u>1,000,033</u>
Net assets	724,202	724,272
Commitments (note 11)		
	<u>\$ 1,820,220</u>	<u>\$ 1,724,305</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

ECOTRUST CANADA

Consolidated Statement of Operations and Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Contributions	\$ 1,070,772	\$ 624,350
Consulting	1,528,027	1,624,410
Dividend and investment income	14,241	28,847
Rental income	348,469	309,848
Other income	74,887	63,765
	<u>3,036,395</u>	<u>2,651,220</u>
Expenses:		
Amortization	68,173	61,535
Bad debts	3,339	3,467
Bank charges and interest	13,036	12,216
Contracts and consulting	651,036	396,592
Dues and memberships	6,529	4,155
Foreign exchange loss	6,782	2,906
Insurance	14,180	26,667
Meetings and conferences	21,288	-
Miscellaneous expenses	6,511	(559)
Occupancy and utilities	325,191	299,846
Office expenses	16,135	20,101
Other (recovery)	-	(13,217)
Printing	7,877	15,112
Professional fees	34,118	1,789
Repairs and maintenance	20,771	23,403
Salaries and benefits	1,602,575	1,676,789
Supplies	193,597	192,670
Telephone	31,758	36,699
Training and recruitment	12,795	40,163
Travel	109,240	121,112
	<u>3,144,932</u>	<u>2,921,446</u>
Deficiency of revenue over expenses before undernoted	(108,537)	(270,226)
Gain on sale of investment	108,467	-
Recovery of loans receivable valuation allowance	-	90,301
Impairment of investment	-	(356,999)
Deficiency of revenue over expenses	(70)	(536,924)
Net assets, beginning of year	724,272	1,261,196
Net assets, end of year	<u>\$ 724,202</u>	<u>\$ 724,272</u>

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash flows provided by (used in):		
Operating:		
Deficiency of revenue over expenses	\$ (70)	\$ (536,924)
Items not involving cash:		
Amortization of deferred capital contributions	(5,459)	(12,914)
Amortization of lease inducement	(35,264)	(33,962)
Change in deferred lease liability	(12,000)	37,683
Amortization	68,173	61,535
Gain on disposal of tangible capital assets	-	(559)
Recovery of loans receivable valuation allowance	-	(90,301)
Accrued interest on loans receivable	(14,000)	(14,000)
Impairment of investment	-	356,999
Gain on sale of investment	(108,467)	-
Changes in non-cash operating working capital:		
Accounts receivable	7,301	(149,068)
Inventory	495	7,589
Prepaid expenses	(23,141)	2,389
Accounts payable, accrued liabilities and goods and service tax payable	28,288	(125,599)
Deferred revenue and deferred contributions	128,831	109,962
Tenants' deposit liability	(3,568)	6,765
	31,119	(380,405)
Financing:		
Proceeds from loans payable	-	20,000
Proceeds from deferred capital contributions	-	15,000
Repayment of capital lease obligations	(4,843)	(5,964)
	(4,843)	29,036
Investing:		
Purchase of tangible and intangible capital assets	(4,509)	(50,207)
Receipts from loans receivable	257,452	-
Proceeds from sale of investment	108,467	-
	361,410	(50,207)
Increase (decrease) in cash and cash equivalents	387,686	(401,576)
Cash and cash equivalents, beginning of year	374,890	776,466
Cash and cash equivalents, end of year	\$ 762,576	\$ 374,890

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Notes to Consolidated Financial Statements

Year ended December 31, 2017

1. Operations:

Ecotrust Canada ("Ecotrust") is incorporated under the Canada Not-for-profit Corporations Act. It is a Canada Revenue Agency registered charity (89474 9969-RR001), which is exempt from Canadian income taxes. Ecotrust 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:

These consolidated financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Canada 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 for-profit subsidiaries, Ecotrust Canada Capital Corporation and The AMP Collective Ltd. All inter-organizational transactions and balances have been eliminated on consolidation.

(b) Investments:

Ecotrust uses the equity method as a basis of accounting for investments in for-profit entities over which it exercises significant influence or controls, 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 excess (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.

(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.

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

2. Significant accounting policies (continued):

(d) Revenue recognition:

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

Unrestricted revenue is recognized when received or receivable if the amount can be reasonably estimated and collection is reasonably assured. However, to the extent revenue is for services rendered, such revenue is recognized at the time services are provided.

(e) Foreign currency transactions:

Monetary items denominated in a foreign currency and non-monetary items carried at market are adjusted at the balance sheet date to reflect the exchange rate in effect at that date. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated 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) 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. A provision for shrinkage and obsolescence is calculated based on historical experience. Management reviews the provision annually to assess whether based on economic conditions it is adequate.

(h) Tangible and intangible capital assets:

Tangible and intangible capital assets are originally recorded at cost. Contributed assets are recorded at their fair values at the date of contribution. Repairs and maintenance costs are charged to the consolidated statement of operations. When a tangible or intangible capital asset no longer contributes to services provided by Ecotrust, its carrying amount is written down to its residual value.

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

2. Significant accounting policies (continued):

(h) Tangible and intangible capital assets (continued):

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

Asset	Years
Furniture and equipment	5 - 7
Computers - hardware and software	2 - 3
Leasehold improvements	Lesser of useful life and remaining lease term

Assets acquired under capital lease are amortized on a straight-line basis over the lesser of the assets' useful lives or lease term.

(i) Use of estimates:

The preparation of these consolidated 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 assets contributed and the useful lives of capital assets. Actual results could differ from the estimates.

(j) 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.

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.

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

3. Accounts receivable:

	2017	2016
Accounts receivable	\$ 372,207	\$ 380,979
Allowance for impairment	-	(1,471)
	<u>\$ 372,207</u>	<u>\$ 379,508</u>

4. Long-term investments:

Ecotrust retains an interest in Climate Smart Businesses Inc. ("Climate Smart"); however, based on the results of this entity's operations and management's assessed impairments, they continue to be recorded at nil (2016 - nil).

As at December 31, 2017, Ecotrust owned 41%, a non-controlling interest, (2016 - 41%) in Climate Smart, a for-profit entity. Ecotrust accounts for the investment under the equity method. During the year ended December 31, 2017, Climate Smart earned income of approximately \$16,882 (2016 - loss of \$24,229), decreasing its accumulated deficit to \$1,133,517 (2016 - \$1,142,161) as at that date. As a result, Ecotrust continues to record its investment in Climate Smart at nil (2016 - nil).

5. Investments and loans receivable:

	2017	2016
Loans receivable:		
Size Nine loan receivable (a)	\$ -	\$ 250,837
Size Nine other receivable (a)	-	11,615
Boat Basin Foundation (b)	438,740	424,740
ThisFish Inc. loan receivable (c)	5,000	-
Climate Smart loan receivable	16,933	16,933
Allowance for impairment	(16,933)	(16,933)
	<u>443,740</u>	<u>687,192</u>
Investments:		
Pacific Coast Fish Conservation Company ("PCFCC") (d)	1	1
	<u>\$ 443,741</u>	<u>\$ 687,193</u>

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 5.2%. Repayment terms vary between 2 and 10 years.

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

5. Investments and loans receivable (continued):

- (a) During the year ended December 31, 2017, Ecotrust sold their investment in Size Nine Holdings Ltd. ("Size Nine") for proceeds of \$750,000, less legal fees of \$1,140. The proceeds were first allocated to retire outstanding debts owing, which included: a mortgage held by Size Nine in the amount of \$351,469 as well as loans and trades payable to Ecotrust in the amounts of \$262,452 and \$26,472, respectively. As the investment in Size Nine was recorded at \$nil, given the cumulative deficit from prior years, the residual amount of \$108,467 was recorded as a gain on sale of investment in the statement of operations.
- (b) The loan receivable from Boat Basin Foundation (the "Foundation") in the amount of \$400,000 (2016 - \$400,000), accrues interest at a rate of 3.5% per annum, payable upon maturity on March 27, 2022. The loan is secured by a first charge over the Foundation's real property. As at December 31, 2017, Ecotrust has recorded accrued interest in the amount of \$38,740 (2016 - \$24,740).
- (c) During the year ended December 31, 2017, Ecotrust provided ThisFish Inc. ("ThisFish"), a new for-profit company, with the opportunity to borrow up to \$25,000, bearing interest at a rate of 5.2% per annum, payable in full six months from the date of origination. As at December 31, 2017, ThisFish borrowed a total of \$5,000.
- (d) The investment in PCFCC is recorded at a nominal value and secured by the rights to fishing licenses and quotas purchased. The investment is recoverable only if the holders of the licenses and quotas fail to meet certain conditions on an on-going basis.

6. Tangible and intangible capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 61,966	\$ 45,226	\$ 16,740	\$ 29,786
Computers - hardware and software	131,202	116,009	15,193	23,209
Leasehold improvements	210,407	133,793	76,614	119,216
	\$ 403,575	\$ 295,028	\$ 108,547	\$ 172,211

7. Deferred contributions:

	2017	2016
Balance, beginning of year	\$ 334,038	\$ 197,032
Contributions received	877,740	596,025
Amounts spent and recognized as revenue in the year	(719,720)	(459,019)
Balance, end of year	\$ 492,058	\$ 334,038

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

8. Demand loans payable:

	2017	2016
Demand loan payable to Ethical Investor Group, bearing interest at 2.0% per annum, interest-only payable annually, unsecured, maturing on December 7, 2018	\$ 20,000	\$ 20,000
Demand loan payable to Greater Vancouver Community Assistance Foundation, non-interest bearing, unsecured, maturing on September 30, 2019	98,673	98,673
	<u>\$ 118,673</u>	<u>\$ 118,673</u>

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

Scheduled principal repayments are as follows:

2018	\$ 20,000
2019	98,673
	<u>\$ 118,673</u>

9. Obligations under capital leases:

Ecotrust has financed certain equipment by entering into a capital leasing arrangement, which expires in September 2018. Total outstanding lease payments to maturity are \$2,244, of which \$45 represents interest, and the residual \$2,199 being the remaining obligation under capital lease.

During the year ended December 31, 2017, Ecotrust incurred interest expense of \$236 (2016 - \$282) relating to capital lease obligations, which has been recorded in bank charges and interest in the consolidated statement of operations. The total amount of equipment under capital lease is \$10,875 (2016 - \$20,535) with related accumulated amortization of \$8,536 (2016 - \$13,630).

10. Deferred capital contributions:

	2017	2016
Balance, beginning of year	\$ 14,926	\$ 12,840
Contributions received during the year	-	15,000
Amounts amortized to revenue in the year	(5,459)	(12,914)
Balance, end of year	<u>\$ 9,467</u>	<u>\$ 14,926</u>

ECOTRUST CANADA

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2017

11. Commitments:

- (a) Ecotrust Canada leases an office space under a specific lease agreement. Rental payments to the end of the lease term are as follows:

2018	\$ 187,340
2019	140,505
	<hr/> \$ 327,845 <hr/>

- (b) Ecotrust has access to a \$250,000 operating line of credit, with interest at prime plus 2% per annum. As at December 31, 2017, no amounts have been drawn on this facility (2016 - nil).

12. Related party transactions:

During the year ended December 31, 2017, Ecotrust earned rental income of \$34,369 (2016 - \$32,232) from Climate Smart Businesses Inc., a Company in which Ecotrust owns a 41% non-controlling interest. The transaction is in the normal course of operations and is measured at fair value pursuant to the terms of the lease agreement.

13. 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 2016.

- (b) Interest rate risk:

Ecotrust is exposed to interest rate risk on its fixed and floating interest rate loans payable and loans receivable. Fixed-interest loans payable subject Ecotrust to a fair value risk while the floating-rate loans payable subject it to a cash flow risk.

- (c) Credit risk:

Credit risk refers to the risk of economic loss arising from a counterparty's failure to repay or service debt according to contractual terms. Financial instruments that potentially subject Ecotrust to concentrations of credit risk consist of accounts receivable and loans receivable. Ecotrust deals with creditworthy counterparties to mitigate the risk of financial loss from defaults. Ecotrust monitors, on a regular basis, the credit risk to which they are exposed in relation to its receivables and takes steps to minimize the risk of loss. There has been no change to the risk exposures from 2016.