Consolidated Financial Statements of

ECOTRUST CANADA

Year ended December 31, 2014

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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, 2014, 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, 2014 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 30, 2015

Burnaby, Canada

ECOTRUST CANADA

Consolidated Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013 (recast – Note 12)
Assets		
Current assets:		
Cash and cash equivalents	$ 185,737	$ 156,027
Accounts receivable (note 3)	501,566	524,705
GST receivable	11,172	-
Short-term investments	-	2,972
Inventory	41,041	39,528
Prepaid expenses	64,162	36,662
Current portion of loans receivable (note 5)	22,500	15,000
	826,178	774,894
Loans receivable, net of valuation allowance of $393,573 (2013 - $539,673) (note 5)	948,521	1,154,365
Tangible and Intangible assets (note 6)	236,339	70,204
	$ 2,011,038	$ 1,999,463
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 214,811	$ 221,751
GST payable	-	8,028
Deferred contributions (note 7)	182,104	140,423
Deferred revenue	40,396	26,930
Demand loans payable (note 8)	217,111	199,000
Tenant's deposit liability	10,857	-
Current portion of obligation under capital lease (note 9)	5,602	-
	670,881	596,132
Deferred capital contributions (note 10)	1,560	17,611
Lease Inducement	174,783	-
Obligations under capital lease (note 9)	13,006	-
	189,349	17,611
Net assets - unrestricted	1,150,808	1,385,720
Commitments (note 11)		
	$ 2,011,038	$ 1,999,463

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, 2014, with comparative information for 2013

	2014	2013 (recast – Note 12)
Revenue:		
Contributions	$ 755,787	$ 1,114,574
Consulting	1,189,692	1,055,572
Dividend and investment income	417	616
Other income	15,069	46,685
Rental Income	84,926	-
	2,045,891	2,217,447
Expenses:		
Amortization	64,356	68,001
Audit and legal	67,678	68,185
Bad debts (recovery)	6,278	(53,063)
Bank charges and interest	20,071	23,912
Contracts and consulting	158,527	441,912
Donations	3,000	500
Dues and memberships	6,913	57,711
Foreign exchange gain	(1,368)	(10,140)
Insurance	18,846	11,166
Loss (gain) on disposal of capital assets	(450)	2,279
Occupancy and utilities	141,565	65,882
Office	33,758	29,776
Other	(21,925)	(17)
Printing	22,220	15,079
Repairs	16,448	36,991
Salaries and benefits	1,344,472	1,443,550
Supplies	54,721	24,188
Telephone	33,593	41,815
Training and recruitment	4,444	4,799
Travel	107,656	183,385
	2,080,803	2,455,911
Deficiency of revenue over expenses before impairment	(34,912)	(238,464)
Impairment of loans receivable (note 5(d))	(200,000)	(126,000)
Deficiency of revenue over expenses	$ (234,912)	$ (364,464)

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2014, with comparative information for 2013

	2014	2013 (recast – note 12)
Net assets - unrestricted, beginning of year (recast – note 12)	$ 1,385,720	$ 1,750,184
Deficiency of revenue over expenses	(234,912)	(364,464)
Net assets - unrestricted, end of year	$ 1,150,808	$ 1,385,720

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013 (recast - note 12)
Cash flows provided by (used in):		
Operating:		
Deficiency of revenue over expenses	$ (234,912)	$ (364,464)
Non-cash items:		
Amortization of deferred capital contributions	(18,051)	(30,190)
In-kind donation of short-term investments	-	(2,963)
Loans payable forgiven	(10,000)	(10,000)
Amortization	64,356	68,001
Loss (gain) on disposal of capital assets	(450)	250
Impairment of loans receivable	200,000	126,000
Changes in non-cash operating working capital:		
Accounts and GST receivable	11,967	(142,868)
Inventory	(1,513)	12,791
Prepaid expenses	(27,500)	8,898
Accounts payable, accrued liabilities and GST payable	(14,968)	(19,523)
Deferred revenue and deferred contributions	55,147	(256,083)
Tenant deposit liability	10,857	-
	34,933	(610,151)
Financing:		
Proceeds from loans	28,111	-
Proceeds from deferred capital contributions	2,000	-
Proceeds from lease inducement	174,783	-
	204,894	-
Investing:		
Purchase of tangible and intangible assets	(211,433)	(26,498)
Proceeds of disposition of tangible and intangible assets	-	2,277
Net dispositions in short-term investments	2,972	17,830
Repayments of loans receivable	5,844	11,688
Advances of loans receivable	(7,500)	(15,000)
	(210,117)	(9,703)
Increase (decrease) in cash and cash equivalents	29,710	(619,854)
Cash and cash equivalents, beginning of year	156,027	775,881
Cash and cash equivalents, end of year	$ 185,737	$ 156,027

See accompanying notes to consolidated financial statements.

Non-cash items:		
Equipment acquired under capital lease	$ 18,608	$ -

1. Operations:

Ecotrust Canada ("Ecotrust") is federally incorporated and continues under the Canada Not-for-profit 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 for-profit subsidiaries, Ecotrust Canada Capital Corporation and the AMP (0992462 B.C. Ltd). Size Nine Holdings Limited, a controlled for-profit subsidiary, is recorded using the equity method. 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, 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) Tangible and Intangible assets:

Tangible and Intangible assets are originally recorded at cost. Contributed assets are recorded at their fair value at the date of contribution. Repairs and maintenance costs are charged to expense. When a tangible or intangible asset no longer contributes to services provided by 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

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

(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:

	2014	2013
Accounts receivable	$ 502,516	$ 667,953
Allowance for impairment	(950)	(143,248)
	$ 501,566	$ 524,705

4. Long-term investments:

Ecotrust retains an interest in Size Nine Holdings Ltd. (“Size Nine”) and Climate Smart Businesses Inc. (“Climate Smart”); however, based on the results of these entities’ operations and management’s assessed impairments, they continue to be recorded at nil (2013 - nil).

(a) As at December 31, 2014, Ecotrust owned 75% (2013 – 75%) of the outstanding shares of Size Nine, a for-profit organization. During 2014, 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, 2014 the value of this investment remains at nil (2013 - nil). Ecotrust accounts for the investment under the equity method.

(b) As at December 31, 2014, Ecotrust owned 50% (2013 – 50%) of Climate Smart, a for-profit entity. During 2014, Climate Smart incurred losses of approximately $41,496 (2013 - $90,778) and had an accumulated deficit of approximately $1,150,710 (2013 - $1,109,215) as at that date. As a result, Ecotrust continues to record its investment in Climate Smart at nil (2013 - nil).

5. Loans receivable:

	2014	2013
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)	30,986	36,829
Boat Basin Foundation (d)	400,000	726,000
Other receivables	325,771	338,372
Allowance for impairment	(393,573)	(539,673)
	971,021	1,169,365
Current portion	(22,500)	(15,000)
	$ 948,521	$ 1,154,365

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 and secured by the rights to fishing licenses purchased.

(b) The loan receivable from Size Nine relates to a mortgage in the amount of $250,837 (2013 - $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 $30,986 (2013 - $36,829) is a result of a previous share re-purchase and is non-interest bearing.

(d) The loan receivable from Boat Basin Foundation ("the Foundation") in the amount of $400,000 (2013 - $726,000) includes principal of $400,000 and accrued interest in the amount of nil (2013 - $126,000). On March 25, 2015, an agreement with the Foundation was reached with an effective date of June 30, 2014, whereby Ecotrust would reduce the receivable balance owing to $400,000, payable on March 27, 2022, in return for receiving first charge over the Foundation's real property. The terms included interest accruing at a rate of 3.5% beginning March 27, 2015 for the duration of the loan. This resulted in Ecotrust recording an additional impairment of $200,000 in the current year, resulting in a cumulative impairment of $326,000 (2013 - $126,000) pertaining to this loan receivable.

6. Tangible and Intangible assets:

	Cost	Accumulated amortization	2014 Net book value	2013 Net book value
Furniture and equipment	$ 105,604	$ 60,613	$ 44,991	$ 14,743
Computers – hardware and software	258,758	242,893	15,865	48,565
Leasehold improvements	202,375	26,892	175,483	6,896
	$ 566,737	$ 330,398	$ 236,339	$ 70,204

7. Deferred contributions:

	2014	2013
Balance, beginning of year	$ 140,423	$ 391,632
Contributions received	550,721	742,699
Amounts spent and recognized as revenue in the year	(509,040)	(993,908)
Balance, end of year	$ 182,104	$ 140,423

8. Demand loans payable:

	2014	2013
Demand 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
Demand 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
Demand loan payable to Illahie Foundation, with interest at 2% per annum. The Foundation has stated their intention to convert $10,000 per annum to a donation until the balance reaches nil.	25,000	35,000
Demand loan payable to Greater Vancouver Community Assistance Foundation, non-interest bearing, unsecured, maturing on September 30, 2019.	28,111	-
	$ 217,111	$ 199,000

8. 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:

2015	$ 174,000
2016	10,000
2017	5,000
2018	-
2019	28,111
	$ 217,111

9. Obligations under capital leases:

Ecotrust has financed certain equipment by entering into capital leasing arrangements. Capital lease repayments are due as follows:

Year ending December 31,	
2015	$ 6,572
2016	6,572
2017	5,080
2018	2,244
Total minimum lease payments	20,468
Less amount representing interest (at rates ranging from 5.43% to 8.00%)	(1,860)
Present value of net minimum capital lease payments	18,608
Current portion of obligations under capital leases	5,602
	$ 13,006

Interest of $310 (2013 – nil) relating to capital lease obligations has been included in bank charges and interest. The total amount of equipment under capital lease is $20,535 (2013 – nil) with related accumulated amortization of $1,753 (2013 – nil).

10. Deferred capital contributions:

	2014	2013
Balance, beginning of year	$ 17,611	$ 47,801
Additions during the year	2,000	-
Amounts recognized as revenue in the year	(18,051)	(30,190)
Balance, end of year	$ 1,560	$ 17,611

11. Commitments:

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

2015	$ 175,485
2016	175,485
2017	178,607
2018	189,689
2019	140,505
	$ 859,771

(b) Ecotrust 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, 2014 (2013 - nil).

12. Recast of prior year comparative figures:

The Company has recast the 2013 comparative figures for immaterial errors as follows:

Accounts payable and accrued liabilities has been corrected to include $45,407 relating to salaries and benefits for the final pay-period of the year. In addition, Prepaid expenses has been corrected to record the deposit paid on a previous lease.

12. Recast of prior year comparative figures (continued):

The above adjustment resulted in the following changes to the 2013 comparative financial statements:

	As previously reported	Adjustment	As recast
Statement of Financial Position:			
Prepaid expenses	$ 25,507	$ 11,155	$ 36,662
Accounts payable and accrued liabilities	176,344	45,407	221,751
Opening net assets	1,806,808	(56,624)	1,750,184
Ending net assets	1,419,972	(34,252)	1,385,720
Statement of Operations:			
Occupancy and utilities	77,037	(11,155)	65,882
Salaries and benefits	1,454,767	(11,217)	1,443,550

13. Related party transactions:

In addition to related party amounts disclosed elsewhere in these consolidated financial statements, Ecotrust has paid $12,000 (2013 - $14,631) of expenses on behalf of Size Nine and Climate Smart, which have not been reimbursed to date.

14. 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 8.

(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 cash, 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.