Consolidated Financial Statements of

ECOTRUST CANADA

Year ended December 31, 2016

KPMG Enterprise™
Metro Tower I
4710 Kingsway, Suite 2400
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

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, 2016, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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, 2016 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

June 21, 2017
Burnaby, Canada

ECOTRUST CANADA

Consolidated Statement of Financial Position

December 31, 2016, with comparative information for 2015

		2016		2015
Assets				
Current assets:				
Cash and cash equivalents	$	374,890	$	776,466
Accounts receivable (note 3)		379,508		230,440
Inventory		35,095		42,684
Prepaid expenses		75,408		77,797
		864,901		1,127,387
Investments and loans receivable (note 5)		687,193		939,891
Tangible and intangible capital assets (note 6)		172,211		182,980
	$	1,724,305	$	2,250,258
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities	$	189,747	$	299,294
Goods and service tax payable		5,678		21,730
Deferred contributions (note 7)		334,038		197,032
Deferred revenue		142,178		169,222
Demand loans payable (note 8)		118,673		98,673
Tenants' deposit liability		26,796		20,031
Current portion of obligations under capital lease (note 9)		4,843		5,965
		821,953		811,947
Deferred lease liability		57,588		19,905
Lease inducement		103,367		137,329
Obligations under capital lease (note 9)		2,199		7,041
Deferred capital contributions (note 10)		14,926		12,840
		1,000,033		989,062
Net assets		724,272		1,261,196
Commitments (note 11)				
	$	1,724,305	$	2,250,258

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, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Contributions	$ 624,350	$ 559,244
Consulting	1,624,410	1,698,066
Dividend and investment income	28,847	26,484
Other income	63,765	96,971
Rental income	309,848	240,656
	2,651,220	2,621,421
Expenses:		
Amortization	61,535	65,002
Bad debts	3,467	29,434
Bank charges and interest	12,216	17,637
Contracts and consulting	396,592	299,595
Dues and memberships	4,155	3,128
Foreign exchange loss (gain)	2,906	(16,525)
Insurance	26,667	23,110
Gain on disposal of capital assets	(559)	(90)
Occupancy and utilities	299,846	276,341
Office expenses	20,101	22,544
Other (recovery)	(13,217)	(62,578)
Printing	15,112	25,064
Professional fees	1,789	73,308
Repairs and maintenance	23,403	54,627
Salaries and benefits	1,676,789	1,355,575
Supplies	192,670	162,779
Telephone	36,699	34,638
Training and recruitment	40,163	35,722
Travel	121,112	111,722
	2,921,446	2,511,033
Excess (deficiency) of revenue over expenses before undernoted	(270,226)	110,388
Recovery of loans receivable valuation allowance (note 5(d))	90,301	-
Impairment of investment (note 5(e))	(356,999)	-
Excess (deficiency) of revenue over expenses	(536,924)	110,388
Net assets, beginning of year	1,261,196	1,150,808
Net assets, end of year	$ 724,272	$ 1,261,196

See accompanying notes to consolidated financial statements.

ECOTRUST CANADA

Consolidated Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash flows provided by (used in):		
Operating:		
Excess (deficiency) of revenue over expenses	$ (536,924)	$ 110,388
Items not involving cash:		
Amortization of deferred capital contributions	(12,914)	(3,720)
Amortization of lease inducement	(33,962)	(37,454)
Change in deferred lease liability	37,683	19,905
Loans payable forgiven	-	(24,999)
Amortization	61,535	65,002
Gain on disposal of tangible capital assets	(559)	(90)
Recovery of loans receivable valuation allowance	(90,301)	-
Accrued interest on loans receivable	(14,000)	(10,740)
Impairment of investment	356,999	-
Changes in non-cash operating working capital:		
Accounts receivable	(149,068)	282,298
Inventory	7,589	(1,643)
Prepaid expenses	2,389	(13,635)
Accounts payable, accrued liabilities and goods and service tax payable	(125,599)	106,213
Deferred revenue and deferred contributions	109,962	143,754
Tenants' deposit liability	6,765	9,174
	(380,405)	644,453
Financing:		
Proceeds from loans payable	20,000	50,561
Proceeds from deferred capital contributions	15,000	15,000
Repayment of capital lease obligations	(5,964)	(5,602)
Repayment of loans payable	-	(144,000)
	29,036	(84,041)
Investing:		
Purchase of tangible and intangible capital assets	(50,207)	(11,553)
Receipts from loans receivable	-	41,870
	(50,207)	30,317
Increase (decrease) in cash and cash equivalents	(401,576)	590,729
Cash and cash equivalents, beginning of year	776,466	185,737
Cash and cash equivalents, end of year	$ 374,890	$ 776,466

See accompanying notes to consolidated financial statements.

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.

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 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 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.

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	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.

(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.

3. Accounts receivable:

	2016	2015
Accounts receivable	$ 380,979	$ 233,323
Allowance for impairment	(1,471)	(2,883)
	$ 379,508	$ 230,440

4. Long-term investments:

Ecotrust retains an interest in Climate Smart Businesses Inc. ("Climate Smart") and Size Nine Holdings Ltd. ("Size Nine"); however, based on the results of these entities' operations and management's assessed impairments, they continue to be recorded at nil (2015 - nil).

(a) As at December 31, 2016, Ecotrust owned 45%, a non-controlling interest, (2015 - 45%) in Climate Smart, a for-profit entity. Ecotrust accounts for the investment under the equity method. During 2016, Climate Smart incurred a deficit of approximately $24,229 (2015 - income of $32,778) and had an accumulated deficit of approximately $1,142,161 (2015 - $1,117,932) as at that date. As a result, Ecotrust continues to record its investment in Climate Smart at nil (2015 - nil).

(b) As at December 31, 2016, Ecotrust owned 85% (2015 - 75%) of the outstanding shares of Size Nine, a controlled for-profit organization. Ecotrust accounts for the investment under the equity method. During 2016, 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, 2016 the value of this investment remains at nil (2015 - nil). Subsequent to the year end, Ecotrust acquired two of the three shares not previously owned in relation to an offer to acquire all its shares in Size Nine by the remaining minority shareholder (note 5(a)).

Financial position:	2016	2015
Assets	$ 559,691	$ 559,219
Liabilities	703,139	700,979
Net assets (deficit)	$ (143,448)	$ (141,760)

Results of operations:	2016	2015
Revenue	$ 61,771	$ 72,100
Expenses	63,460	53,341
Excess (deficiency) of revenue over expenses	$ (1,689)	$ 18,759

Cash flows:	2016	2015
Increase in cash from operating, financing and investing	$ 6,761	$ 24,953

5. Investments and loans receivable:

		2016	2015
Loans receivable:			
Size Nine loan receivable	(a)	$ 250,837	$ 250,837
Size Nine other receivable	(b)	11,615	11,615
Boat Basin Foundation	(c)	424,740	410,740
Other receivables		-	318,271
Allowance for impairment	(d)	-	(408,572)
		687,192	582,891
Investments:			
Pacific Coast Fish Conservation Company ("PCFCC")	(e)	1	357,000
		$ 687,193	$ 939,891

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 2- and 10-years.

(a) The loan receivable from Size Nine relates to a mortgage in the amount of $250,837 (2015 - $250,837). This amount bears interest at the prime rate plus 3% and is secured by a second charge over the land and property of Size Nine. Interest of $14,297 (2015 - nil) has been earned on the outstanding amount during the year ending December 31, 2016. During the year, Ecotrust was provided with an offer by a minority shareholder of Size Nine as follows: The minority shareholder would pay to Ecotrust $750,000. Ecotrust would be required to use these funds to first retire a first mortgage on the property owing to a British Columbia credit union; second to extinguish the Ecotrust mortgage on the property; and third to acquire Ecotrust's 95% interest in Size Nine shares (note 4(b)). As of the date of the auditors' report the agreement had not been completed.

(b) The receivable from Size Nine in the amount of $11,615 (2015 - $11,615) is a result of a previous share re-purchase and is non-interest bearing.

(c) The loan receivable from Boat Basin Foundation (the "Foundation") includes principal of $400,000 (2015 - $400,000) and accrued interest in the amount of $24,740 (2015 - $10,740). On March 25, 2016, an agreement with the Foundation was reached with an effective date of June 30, 2015, whereby Ecotrust would reduce the previous receivable balance owing to $400,000, payable on March 27, 2022, in return for receiving a first charge over the Foundation's real property. The terms included interest accruing at a rate of 3.5% beginning March 27, 2016 for the duration of the loan, payable upon maturity.

5. Investments and loans receivable (continued):

(d) During the year, Ecotrust received an offer to purchase its shares and mortgage receivable in Size Nine for a valuation in excess of its investment. As a result, Ecotrust reversed the previous valuation allowance taken on the outstanding loan receivable to reflect the current likelihood of collectability.

(e) The investment in PCFCC in the amount of $1 (2015 - $357,000) is recorded at cost 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. In the current year, management determined that failure on the part of the holders to continue to meet these conditions was unlikely and has therefore determined the investment should be written down to nominal value.

6. Tangible and intangible capital assets:

			2016	2015
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	$ 73,248	$ 43,462	$ 29,786	$ 39,102
Computers - hardware and software	284,994	261,785	23,209	5,999
Leasehold improvements	208,518	89,302	119,216	137,879
	$ 566,760	$ 394,549	$ 172,211	$ 182,980

7. Deferred contributions:

	2016	2015
Balance, beginning of year	$ 197,032	$ 182,104
Contributions received	596,025	314,622
Amounts spent and recognized as revenue in the year	(459,019)	(299,694)
Balance, end of year	$ 334,038	$ 197,032

8. Demand loans payable:

	2016	2015
Demand loan payable to Ethical Investor Group, with interest at 2.5% 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	78,673
	$ 118,673	$ 98,673

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
	$ 118,673

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,	
2017	$ 5,080
2018	2,244
Total minimum lease payments	7,324
Less amount representing interest (at rates ranging from 5.43% to 8.00%)	(282)
Present value of net minimum capital lease payments	7,042
Current portion of obligations under capital leases	4,843
	$ 2,199

Interest of $282 (2015 - $890) relating to capital lease obligations has been included in bank charges and interest in the consolidated statement of operations. The total amount of equipment under capital lease is $20,535 (2015 - $20,535) with related accumulated amortization of $13,630 (2015 - $7,692).

10. Deferred capital contributions:

		2016		2015
Balance, beginning of year	$	12,840	$	1,560
Contributions received during the year		15,000		15,000
Amounts recognized as revenue in the year		(12,914)		(3,720)
Balance, end of year	$	14,926	$	12,840

11. Commitments:

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

2017	$	173,290
2018		187,340
2019		140,505
	$	501,135

(b) Ecotrust has access to a $250,000 operating line of credit, with interest at prime plus 2% per annum. As at December 31, 2016, no amounts have been drawn on this facility (2015 - nil).

12. Related party transactions:

During the year, Ecotrust earned rental income of $32,232 (2015 - $31,057) from Climate Smart Businesses Inc., a Company in which Ecotrust owns 45%, a non-controlling interest. The transaction is in the normal course of operations and is measured at fair market value pursuant to the terms of the lease agreement signed on June 3, 2015.

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 2015.

(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.

13. Financial risks and concentration of risks (continued):

(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. There has been no change to the risk exposures from 2015.