Financial Statements of

[redacted]

Year ended December 31, 2015

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Members of [redacted]

We have audited the accompanying financial statements of [redacted] of Alberta, which comprise the statement of financial position as at December 31, 2015, the 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of [redacted] of Alberta as at December 31, 2015, and its results of operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

April 19, 2016
Edmonton, Canada

[redacted]

Financial Statements

Year ended December 31, 2015

[redacted]

Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
ASSETS		
Current		
Cash	**$ 1,392,919**	$ 537,968
Investments (note 3)	**332,792**	320,756
Accounts receivable	**412,864**	208,843
Prepaid expenses, deposits and other	**41,351**	34,410
	2,179,926	1,101,977
Investments (note 3)	**223,345**	226,770
Prepaid expenses and deposits	**340,619**	333,297
Property and equipment (note 4)	**2,320,701**	2,338,481
	$ 5,064,591	$ 4,000,525
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 11)	**$ 1,841,350**	$ 1,918,956
Deferred revenues	**56,860**	57,902
Deferred contributions (note 6)	**412,414**	57,271
Current portion of obligations under capital lease (note 8)	**19,235**	17,800
	2,329,859	2,051,929
Deferred capital contributions (note 7)	**59,795**	128,702
Obligations under capital lease (note 8)	**1,887**	21,122
Straight-line rent and tenant inducements payable (note 9)	**1,070,454**	1,263,527
	3,461,995	3,465,280
Net assets	**1,602,596**	535,245
	$ 5,064,591	$ 4,000,525

Commitments (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

______________________________, Director　　______________________________, Director

[redacted]

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

		2015		2014
Revenues				
Commercial	$	**21,426,431**	$	19,225,212
Provincial contract fees (note 6)		**2,421,110**		2,489,045
United Way		**162,491**		156,856
Donations, grants and contributions		**58,258**		67,483
Amortization of deferred capital contributions		**68,907**		62,446
Unrealized gain on investments		**8,611**		10,266
Interest revenue		**421**		284
		24,146,229		22,011,592
Expenses				
Human resource costs (note 15)		**14,168,964**		13,664,328
Occupancy costs (note 15)		**5,843,996**		5,654,644
Other operating costs (note 15)		**1,923,848**		1,839,774
Amortization of property and equipment		**705,158**		595,072
Material costs (note 15)		**436,912**		461,187
		23,078,878		22,215,005
Excess (deficiency) of revenues over expenses	$	**1,067,351**	$	(203,413)

See accompanying notes to financial statements.

[redacted]

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

2015	Unrestricted	Investment in property and equipment	**Total**
Net assets (deficiency), beginning of year	$ (1,635,612)	$ 2,170,857	**$ 535,245**
Excess (deficiency) of revenues over expenses	1,703,602	(636,251)	**1,067,351**
Investment in property and equipment	(705,178)	705,178	**-**
Net assets (deficiency), end of year	$ (637,188)	$ 2,239,784	**$ 1,602,596**

2014	Unrestricted	Investment in property and equipment	Total
Net assets (deficiency), beginning of year	$ (1,404,736)	$ 2,143,394	$ 738,658
Excess (deficiency) of revenues over expenses	329,213	(532,626)	(203,413)
Investment in property and equipment	(560,089)	560,089	-
Net assets (deficiency), end of year	$ (1,635,612)	$ 2,170,857	$ 535,245

See accompanying notes to financial statements.

[redacted]

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

		2015		2014
Cash provided by (used in):				
Operating activities:				
Excess (deficiency) of revenues over expenses	$	**1,067,351**	$	(203,413)
Amortization of property and equipment		**705,158**		595,072
Straight-line rent (note 9)		**(128,332)**		(91,081)
Amortization of deferred capital contributions (note 7)		**(68,907)**		(62,446)
Amortization of deferred tenant inducements (note 9)		**(163,141)**		(149,923)
		1,412,129		88,209
Change in non-cash operating working capital				
Accounts receivable		**(204,021)**		(14,585)
Prepaid expenses, deposits and other		**(6,941)**		22,215
Non-current prepaid expenses and deposits		**(7,322)**		(15,486)
Accounts payable and accrued liabilities		**(77,606)**		434,968
Deferred revenues		**(1,042)**		(19,306)
Deferred contributions		**355,143**		(73,497)
		1,470,340		422,518
Financing activities:				
Repayment of obligations under capital lease		**(17,800)**		(20,047)
Capital contributions received (note 7)		**-**		68,701
Tenant inducement received (note 9)		**98,400**		-
		80,600		48,654
Investing activities:				
Unrealized gain on investments		**(8,611)**		(10,266)
Purchase of property and equipment		**(687,378)**		(608,743)
		(695,989)		(619,009)
Net increase (decrease) in cash		**854,951**		(147,837)
Cash, beginning of year		**537,968**		685,805
Cash, end of year	$	**1,392,919**	$	537,968
Supplemental cash flow information:				
Cash interest paid	$	**10,628**	$	9,085
Cash interest received		**421**		284

See accompanying notes to financial statements.

1. Purpose of the organization

[redacted] rofit entity incorporated without share capital under the Societies Act of Alberta. [redacted] is a social enterprise providing individuals with disabilities the opportunity to enhance their lives through meaningful employment. No provision for corporate income taxes has been provided in these financial statements pursuant to Section 149(1)(l) of the Income Tax Act, Canada.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and reflect the following policies:

(a) Revenue recognition

[redacted] ollows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for the purchase of property and equipment are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired property and equipment. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be estimated and collection is reasonably assured.

Provincial contract fees are recognized as revenue when the related service is performed, the amount to be received or receivable can be reasonably estimated and collection is reasonably assured. United Way and grant revenue is recognized over the term of the related contract or agreement.

Commercial revenues are recognized at the time the service is performed or the contributed item is sold and when reasonable assurance exists regarding the measurement and collection of the consideration received.

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements. In-kind donations of services are recorded at fair value when such value can be reasonably determined.

(b) Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts. Bank borrowings are considered to be financing activities.

(c) Inventory

Donated materials for resale are not recorded in the financial statements as the fair value of the amounts cannot be reasonably determined. Processing and reconditioning costs applicable to these materials are expensed in the period incurred.

2. Significant accounting policies (continued)

(d) Property and equipment

Purchased property and equipment is recorded at cost. Contributed property and equipment is recorded at fair value at the date of the contribution. Assets acquired under capital leases are amortized over the estimated life of the asset or over the lease term, as appropriate. Repairs and maintenance costs are charged to expense when incurred. Betterments which extend the estimated life of an asset are capitalized. When property or equipment no longer contributes to [redacted] ability to provide services, its carrying amount is written down to its residual value.

Amortization is calculated using the straight-line method, prorated from the date of acquisition, as follows:

Computers and electronic equipment	3 years
Furniture and equipment	10 years
Vehicles	3 years
Leasehold improvements	Term of the lease (maximum of 10 years)

(e) Employee future benefits

Prior to December 31, 2013, [redacted] had a [redacted]ntribution plan that was funded by the employee and employer on a shared basis. [redacted] so had a defined benefit plan covering certain employees that was funded entirely by [redacted]. These plans provided pension, other retirement and post-employment benefits to most of ABC Ltd's employees. Effective December 31, 2013, the Trustee approved the termination of both plans and both plans began to wind-down following approval from regulatory agencies.

Effective January 1, 2014, [redacted] established a group Registered Retirement Savings Plan (Group RRSP) that is funded by the employee and the employer on a shared basis. Contributions to the Group RRSP for current service is recognized when the contribution is paid (or payable) based on pay dates.

(f) Leases and tenant inducements

Leases are classified as capital or operating leases. A lease that transfers substantially the entire benefits and risks incidental to ownership is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are amortized on a straight line basis over the term of the lease including free rental periods.

Tenant inducements are recognized as reductions in rent expense on a straight-line basis over the term of the related lease.

2. Significant accounting policies (continued)

(g) 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. [redacted] has elected to carry its investments at fair value.

Transactions 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 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, [redacted] 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 expected cash flows, the amount that could be realized from selling the financial asset or the amount [redacted] 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.

(h) Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at the rate of exchange in effect at the statement of financial position date. Gains or losses on translation are included in earnings. Transactions denominated in foreign currencies are translated at the rate of exchange on the date the transaction is completed.

(i) Use of estimates

The preparation of these financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, rates and methods to calculate amortization, assets and obligations related to employee future benefits, accrued liabilities related to tenant inducements and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

3. Investments

		2015		2014
Investment cash account	$	169	$	108,389
Investment savings account		214,380		212,367
Corporate guaranteed investment certificate with stated annually compounding interest rate of 3.5% with maturity date in 2016		118,243		-
		332,792		320,756
Corporate guaranteed investment certificates with stated annually compounding interest rates of 1.85% - 1.9% (2014 – 3.1% - 3.5%) with maturity dates up to 2018		223,345		226,770
	$	556,137	$	547,526

4. Property and equipment

2015		Cost		Accumulated Amortization		Net Book Value
Computers and electronic equipment	$	310,223	$	210,678	$	99,545
Furniture and equipment		1,506,168		815,090		691,078
Vehicles		225,206		101,929		123,277
Leasehold improvements		3,878,101		2,471,300		1,406,801
Total property and equipment	$	5,919,698	$	3,598,997	$	2,320,701

2014		Cost		Accumulated Amortization		Net Book Value
Computers and electronic equipment	$	229,250	$	195,844	$	33,406
Furniture and equipment		1,452,736		828,610		624,126
Vehicles		133,374		59,339		74,035
Leasehold improvements		3,582,156		1,975,242		1,606,914
Total property and equipment	$	5,397,516	$	3,059,035	$	2,338,481

During the year, ABC Ltd wrote off fully amortized assets. Reductions to cost and accumulated amortization were $165,196 (2014 - $110,356).

Furniture and equipment includes assets under capital lease with a cost of $258,805 (2014 - $258,805) and accumulated amortization of $196,187 (2014 - $172,196).

5. Credit facility

ABC Ltd has a demand operating loan available to a maximum of $700,000 (2014 – $700,000) of which $nil (2014 – $nil) has been advanced. The facility bears interest at the bank's prime rate plus 0.25% (2014 – prime rate plus 0.25%). Security has been provided for the demand loan as follows:

(a) General assignment of debts registered in Alberta.
(b) Fixed and floating charge debenture, in the amount of $400,000, on all major equipment at year-end. The carrying value of furniture and equipment as at December 31, 2015 is $691,078 (2014 – $624,126).
(c) A $500,000 investment portfolio of securities supported by a security agreement constituting a first ranking security interest in the securities.

6. Deferred contributions

Deferred contributions relate to provision of services to Ministries of the Government of Alberta. Changes in deferred contributions are as follows:

		2015		2014
Balance, beginning of year	**$**	**57,271**	$	130,768
Contributions received		**2,776,253**		2,415,548
Contributions recognized as revenue		**(2,421,110)**		(2,489,045)
Balance, end of year	**$**	**412,414**	$	57,271

7. Deferred capital contributions

Changes in deferred capital contributions are as follows:

		2015		2014
Balance, beginning of year	**$**	**128,702**	$	122,447
Contributions received		**-**		68,701
Contributions recognized as revenue		**(68,907)**		(62,446)
Balance, end of year	**$**	**59,795**	$	128,702

8. Obligations under capital leases

		2015		2014
National Leasing	$	**21,122**	$	38,922
Less current portion of obligation under capital lease		**(19,235)**		(17,800)
	$	**1,887**	$	21,122

National Leasing, payable in 60 monthly payments of $1,641 plus GST, 6.7% nominal annual rate, due January 2017, secured by a pre-crusher with net book value of $50,369 (2014 - $58,764).

Future minimum lease payments in each of the next two remaining years are as follows:

2016	$	19,692
2017		1,641
		21,333
Less amount representing interest		(211)
	$	21,122

9. Straight-line rent and tenant inducements payable

		2015		2014
Tenant inducements	$	**551,966**	$	616,707
Straight-line rent		**518,488**		646,820
	$	**1,070,454**	$	1,263,527

During the year, ABC Ltd received $98,400 (2014 - $nil) in tenant inducements and recognized $163,141 (2014- $149,923) of amortization of deferred tenant inducements as a reduction in rent expense. In addition, during the year ABC Ltd recognized net straight-line rent income of $128,332 (2014 - $91,081).

10. Employee future benefits

Information about the ABC Ltd's defined benefit plan is as follows:

		2015		2014
Accrued benefit obligation	$	**(205,000)**	$	(198,000)
Fair value of plan assets		178,000		177,000
Accrued benefit liability	**$**	**(27,000)**	**$**	(21,000)

On October 15, 2013, the Trustee approved the termination of the defined benefit plan and the defined contribution plan effective December 31, 2013. Notices of plan termination were sent to Canada Revenue Agency, Alberta Finance and Enterprise and all active defined benefit and defined contribution plan members stating that contributions into the defined contribution plan would no longer be made after December 31, 2013.

10. Employee future benefits (continued)

During 2014, funds were disbursed out of the defined benefit plan and defined contribution plan for all active employees subject to statutory limitations. Following the disbursement of any remaining funds, which is expected to be substantially completed by December 31, 2016, both plans will be deregistered. ABC Ltd does not expect a significant plan deficiency or plan surplus following full disbursement of member funds.

11. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of $166,620 (2014 - $125,209) which includes payroll related taxes.

12. Commitments

	Premises base rent	Vehicles and equipment rent	**Total**
2016	3,651,466	16,385	**$3,667,851**
2017	3,241,738	13,122	**3,254,860**
2018	2,420,954	4,882	**2,425,836**
2019	2,072,897	808	**2,073,705**
2020	1,653,211	-	**1,653,211**

13. Financial risks and concentration of credit risk

(a) Credit risk

Credit risk arises from the possibility that the entities to which ABC Ltd sells products may experience financial difficulty and be unable to fulfill their contractual obligations. This risk is mitigated by proactive credit management policies that include regular monitoring of the debtor's payment history and performance.

(b) Interest rate risk

Interest rate risk relates to the floating interest rate on the demand operating loan. As at December 31, 2015, the demand operating loan was not drawn on and in management's opinion, ABC Ltd is not exposed to significant interest rate risk.

(c) Foreign currency risk

Foreign currency risk relates to holding funds in a US bank account used to pay US suppliers. In management's opinion, ABC Ltd is not exposed to significant foreign currency risk.

14. Comparative information

Certain comparative information has been restated to conform with the current year's presentation.

15. Operating expenses

Further details of operating expenses include the following:

	2015	2014
Human resource costs		
Salaries and wages	**$ 12,586,808**	$ 12,053,011
Employee benefits	**1,320,833**	1,315,388
Contracted labour	**95,149**	167,849
Training, recruitment and other costs	**166,174**	128,080
	$ 14,168,964	$ 13,664,328
Occupancy costs		
Rent and other occupancy costs	**$ 4,587,593**	$ 4,448,966
Repairs and maintenance	**690,967**	592,897
Utilities	**339,798**	389,919
Telephone and communications	**144,877**	142,520
Insurance	**80,761**	80,342
	$ 5,843,996	$ 5,654,644
Other operating costs		
Disposal fees	**$ 630,535**	$ 596,312
Vehicle leases and rentals	**236,186**	307,104
Audit and professional fees	**216,981**	152,788
Advertising and promotion	**328,801**	372,347
Fees and other dues	**139,504**	58,916
Card processing fees, interest and bank charges	**173,825**	141,875
Travel	**95,105**	112,085
Affiliation dues	**72,350**	70,068
Postage and delivery	**28,858**	24,588
Interest on capital lease	**2,385**	3,975
Foreign exchange gain	**(682)**	(284)
	$ 1,923,848	$ 1,839,774
Materials costs		
Supplies	**$ 413,902**	$ 439,879
Materials	**23,010**	21,308
	$ 436,912	$ 461,187

16. Subsequent events

Subsequent to December 31, 2015, ABC Ltd completed a transaction whereby Alberta Social Enterprise Venture Fund Inc. provided a loan with a principal amount of $400,000, bearing interest at 5% per annum and repayable over five years (first year interest only) secured by a General Security Agreement. As a result, the General Security Agreement and floating charge debenture held by the bank (note 5) was released and the operating loan was reduced to $400,000.

In addition, subsequent to December 31, 2015, the Board of Directors approved entering into a ten-year warehouse space lease commencing May 1, 2016 with total lease payments through the term of $6,556,896.