Financial Statements of

[redacted]

Year ended December 31, 2013

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of [redacted]

We have audited the accompanying financial statements of [redacted] which comprise the statement of financial position as at December 31, 2013, the statements of operation, 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 [redacted] as at December 31, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

April 15, 2014
Edmonton, Canada

[redacted]

Financial Statements

Year ended December 31, 2013

Statement of Financial Position

December 31, 2013, with comparative information for 2012

		2013		2012
ASSETS				
Current				
Cash and cash equivalents	**$**	**685,805**	$	954,184
Investments (note 3)		**317,736**		207,199
Accounts receivable		**194,258**		270,841
Inventory		**6,630**		7,190
Prepaid expenses and deposits		**49,995**		56,895
		1,254,424		1,496,309
Investments (note 3)		**219,524**		317,613
Prepaid expenses and deposits		**317,811**		319,641
Property and equipment (note 4)		**2,324,810**		2,617,059
	$	**4,116,569**	$	4,750,622
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 11)	**$**	**1,483,988**	$	1,338,910
Deferred revenues		**77,208**		67,486
Deferred contributions (note 6)		**130,768**		326,898
Current portion of obligations under capital lease (note 8)		**20,244**		19,397
		1,712,208		1,752,691
Deferred capital contributions (note 7)		**122,447**		184,614
Obligations under capital lease (note 8)		**38,725**		58,961
Accrued benefit liability (note 10)		**-**		24,000
Straight-line rent and tenant inducements payable (note 9)		**1,504,531**		1,683,250
		3,377,911		3,703,516
Net assets		**738,658**		1,047,106
	$	**4,116,569**	$	4,750,622

Commitments (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

______________________________, Director   ______________________________, Director

[redacted]

Statement of Operations

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

	2013	2012
Revenues		
Commercial	$ **18,446,374**	$ 18,090,637
Provincial contract fees	**2,208,589**	2,108,213
United Way	**177,728**	174,991
Donations, grants and contributions	**81,848**	148,360
Amortization of deferred capital contributions	**62,167**	55,857
Unrealized gain on investments	**12,448**	12,736
Interest revenue	**4,963**	3,503
	20,994,117	20,594,297
Expenses		
Human resource costs (note 14)	**13,291,714**	12,992,010
Physical resource costs (note 14)	**5,397,023**	5,115,306
Other operating costs (note 14)	**1,663,814**	1,573,217
Amortization of property and equipment	**523,050**	461,945
Material costs (note 14)	**426,964**	337,304
	21,302,565	20,479,782
(Deficiency) excess of revenues over expenses	$ **(308,448)**	$ 114,515

See accompanying notes to financial statements.

[redacted]

Statement of Changes in Net Assets

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

2013		Unrestricted		Investment in property and equipment		**Total**
Net assets, beginning of year	$	(1,306,980)	$	2,354,086	**$**	**1,047,106**
Excess (deficiency) of revenues over expenses		152,435		(460,883)		**(308,448)**
Investment in property and equipment		(250,191)		250,191		**-**
Net assets, end of year	$	(1,404,736)	$	2,143,394	**$**	**738,658**

2012		Unrestricted		Investment in property and equipment		Total
Net assets, beginning of year	$	(1,043,436)	$	1,976,027	$	932,591
Excess (deficiency) of revenues over expenses		520,603		(406,088)		114,515
Investment in property and equipment		(784,147)		784,147		-
Net assets, end of year	$	(1,306,980)	$	2,354,086	$	1,047,106

See accompanying notes to financial statements.

[redacted]

Statement of Cash Flows

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

	2013	2012
Cash provided by (used in):		
Operating activities:		
(Deficiency) excess of revenues over expenses	$ **(308,448)**	$ 114,515
Amortization of property and equipment	**523,050**	461,945
Straight-line rent (note 9)	**(80,420)**	210,021
Amortization of deferred capital contributions (note 7)	**(62,167)**	(55,857)
Amortization of deferred tenant inducements (note 9)	**(153,864)**	(142,973)
	(81,849)	587,651
Change in non-cash operating working capital		
Accounts receivable	**76,583**	(146,233)
Inventory	**560**	1,716
Prepaid expenses and deposits	**6,900**	60,337
Non-current prepaid expenses and deposits	**1,830**	3,909
Accounts payable and accrued liabilities	**145,078**	(111,661)
Accrued benefit liability	**(24,000)**	-
Deferred revenue	**9,722**	(57,181)
Deferred contributions	**(196,130)**	288,247
	(61,306)	626,785
Financing activities:		
Repayment of obligations under capital lease	**(19,389)**	(17,592)
Deferred capital contributions (note 7)	**-**	37,786
Tenant inducement received (note 9)	**55,565**	404,074
	36,176	424,268
Investing activities:		
Unrealized gain on investments	**(12,448)**	(24,812)
Purchase of property and equipment	**(230,801)**	(804,342)
	(243,249)	(829,154)
Net increase (decrease) in cash and cash equivalents	**(268,379)**	221,899
Cash and cash equivalents, beginning of year	**954,184**	732,285
Cash and cash equivalents, end of year	$ **685,805**	$ 954,184
Supplemental cash flow information:		
Cash interest paid	$ **7,404**	$ 8,943
Cash and cash equivalents are represented by:		
Cash	$ **12,350**	$ 12,050
Bank balances, net of outstanding cheques	**673,455**	942,134
	$ **685,805**	$ 954,184

See accompanying notes to financial statements.

1. Purpose of the organization

ABC Ltd Industries of Alberta (the “Society”) is a non-profit entity incorporated without share capital under the Societies Act of Alberta. The Society 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

The Society follows 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 and cash equivalents

Cash and cash equivalents include 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.

Materials purchased for resale are valued at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price less estimated selling costs. Cost is determined on a first in, first out basis.

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 the Society's 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 other office 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

The Society has a defined contribution plan that is funded by the employee and employer on a shared basis. The Society also has a defined benefit plan covering certain employees that was funded entirely by the Society. These plans provide pension, other retirement and post-employment benefits to most of the Society's employees.

Contributions to the defined contribution plan for current service are recognized when the contribution is paid (or payable) based on pay dates.

The Society uses the immediate recognition approach to account for the defined benefit plan. The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service (which incorporates management's best assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). Since benefits under the defined benefit plan were frozen at December 31, 2005, the total projected benefits are calculated as the sum of the benefits accrued to December 31, 2005 on a career average basis. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The Society measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plan for funding purposes was as of December 31, 2013.

In years between valuations, the Society uses a roll-forward technique to estimate the accrued benefit obligation. The Society recognizes the accrued benefit obligations net of the fair value of the plan assets adjusted for any valuation allowance in the statement of financial position at the end of the year. The cost of the plan, comprising of (i) changes in the accrued benefit obligation other than those resulting from benefit payments to plan members and net of any employee contributions; ii) the actual return on plan assets; and (iii) the change in the valuation allowance is recorded in income.

2. Significant accounting policies (continued)

(e) Employee future benefits (continued)

Actuarial gains (losses) on plan assets and past service costs arising from plan amendments are immediately recognized into income at the date of the amendment.

(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.

(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. The Society 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, the Society 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 the Society 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.

2. Significant accounting policies (continued)

(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

	2013	2012
Investment cash account	**$ 55**	$ 98
Investment savings account	**209,740**	102,856
Corporate guaranteed investment certificate with stated annually compounding interest rate of 2.70% maturing in 2014 (2012 – rate 2.25% maturing in 2013)	**107,941**	104,245
	317,736	207,199
Corporate guaranteed investment certificates with stated annually compounding interest rates of 3.1% - 3.5% (2012 – 2.7% - 3.5%) with maturity dates up to 2016	**219,524**	317,613
	$ 537,260	$ 524,812

4. Property and equipment

2013	Cost	Accumulated Amortization	**Net Book Value**
Computers and electronic equipment	$ 214,136	$ 177,335	**$ 36,801**
Furniture and equipment	1,410,475	757,389	**653,086**
Vehicles	104,124	74,461	**29,663**
Leasehold improvements	3,170,394	1,565,134	**1,605,260**
Total property and equipment	$ 4,899,129	$ 2,574,319	**$ 2,324,810**

2012	Cost	Accumulated Amortization	Net Book Value
Computers and electronic equipment	$ 201,054	$ 155,697	$ 45,357
Furniture and equipment	1,401,938	662,164	739,774
Vehicles	104,124	54,233	49,891
Leasehold improvements	3,005,375	1,223,338	1,782,037
Total property and equipment	$ 4,712,491	$ 2,095,432	$ 2,617,059

During the year, the Society wrote off fully amortized assets. Reductions to cost and accumulated amortization were $44,164 (2012 - $64,005).

Furniture and equipment includes assets under capital lease with a cost of $258,805 (2012 - $258,805) and accumulated amortization of $146,263 (2012 - $121,082).

5. Credit facility

The Society has a demand operating loan available to a maximum of $700,000 (2012- $700,000) of which $nil (2012 - $nil) has been advanced. The facility bears interest at the bank's prime rate plus 0.25% (2012 – 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, 2013 is $653,086 (2012 – $739,774).
(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:

		2013		2012
Balance, beginning of year	$	**326,898**	$	38,651
Contributions received		**2,012,459**		2,396,460
Contributions recognized as revenue		**(2,208,589)**		(2,108,213)
Balance, end of year	$	**130,768**	$	326,898

7. Deferred capital contributions

Changes in deferred capital contributions are as follows:

		2013		2012
Balance, beginning of year	$	**184,614**	$	202,685
Additional contributions received		**-**		37,786
Contributions recognized as revenue		**(62,167)**		(55,857)
Balance, end of year	$	**122,447**	$	184,614

8. Obligations under capital leases

		2013		2012
National Leasing	$	**55,190**	$	70,434
ARPAC		**3,779**		7,924
		58,969		78,358
Less current portion		**(20,244)**		(19,397)
	$	**38,725**	$	58,961

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 $68,558 (2012 - $76,252).

ARPAC, payable in 36 monthly payments of $384 plus GST, 10.3% nominal rate, due October 2014, secured by a forklift with a net book value of $9,178 (2012 - $10,387).

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

2014	23,533
2015	19,693
2016	19,693
2017	1,641
	64,560
Less amount representing interest	(5,591)
	$ 58,969

9. Straight-line rent and tenant inducements payable

		2013		2012
Tenant inducements	**$**	**766,630**	$	864,929
Straight-line rent		**737,901**		818,321
	$	**1,504,531**	$	1,683,250

During the year, the Society received $55,565 (2012 - $404,074) in tenant inducements and recognized $153,864 (2012 - $142,973) of amortization of deferred tenant inducements as a reduction in rent expense. In addition, during the year the Society recognized net straight-line rent income of $80,420 (2012 - $210,021 in expense).

10. Employee future benefits

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

		2013		2012
Accrued benefit obligation	**$**	**(620,000)**	$	(701,000)
Fair value of plan assets		**744,000**		677,000
Accrued benefit (liability) asset		**124,000**		(24,000)
Less: Valuation allowance		**(124,000)**		-
Accrued benefit (liability), net of valuation allowance	**$**	**-**	$	(24,000)

		2013		2012
Employer contributions	**$**	**19,345**	$	14,771
Benefits paid	**$**	**45,369**	$	80,746

Information about the Society's defined contribution plan as at December 31 is as follows:

		2013		2012
Employer contributions	**$**	**230,819**	$	221,840

Pension expenses are included in employee benefits costs in note 14.

10. Employee future benefits (continued)

On October 15, 2013, the Trustee approved the termination of the defined contribution plan effective December 31, 2013. Notices of defined contribution plan termination were sent to Canada Revenue Agency, Alberta Finance and Enterprise and all active defined contribution plan members on November 15, 2013 stating that contributions into the defined contribution plan would no longer be made after December 31, 2013. Following approval by these agencies, funds will be disbursed out of the defined contribution plan subject to statutory limitations, following which the defined contribution plan will be deregistered.

In mid-2014, the Society expects to give notice of termination and settlement to Canada Revenue Agency, Alberta Finance and Enterprise and all members of the defined benefit plan. Following approval by these agencies, funds will be disbursed out of the defined benefit plan subject to statutory limitations, following which the defined benefit plan will be deregistered. At December 31, 2013, the defined benefit plan surplus at final settlement is unknown and whether or not any remaining fund surplus will be returned to the Society is undeterminable.

11. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are government remittances payable of $117,032 (2012 - $105,390) which includes payroll related taxes.

12. Commitments

	Premises base rent	Vehicles and equipment rent	**Total**
2014	$ 3,600,143	$ 101,767	**$ 3,701,910**
2015	$ 3,514,134	$ 75,386	**$ 3,589,520**
2016	$ 2,816,317	$ 36,571	**$ 2,852,888**
2017	$ 2,293,109	$ 14,805	**$ 2,307,914**
2018	$ 1,503,788	$ 4,882	**$ 1,508,670**

13. Financial risks and concentration of credit risk

(a) Credit risk

Credit risk arises from the possibility that the entities to which the Society 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, 2013, the demand operating loan was not drawn on and in management's opinion, the Society 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. Funds are from US sales of books sold on the internet. Because of the materiality amount, it is management's opinion the Society is not exposed to significant foreign currency risk.

14. Operating expenses

Further details of operating expenses include the following:

		2013		2012
Human resource costs				
Salaries and wages	$	11,792,042	$	11,275,580
Employee benefits		1,309,751		1,252,443
Contract labour		139,126		393,588
Training, recruitment and other costs		74,795		70,399
Defined benefit pension recovery		(24,000)		-
	$	13,291,714	$	12,992,010
Physical resource costs				
Rent and other occupancy costs	$	4,247,256	$	4,087,556
Repairs and maintenance		558,969		457,614
Utilities		367,673		332,619
Telephone and communications		151,460		167,748
Insurance		71,665		69,769
	$	5,397,023	$	5,115,306
Other costs				
Disposal fees	$	510,262	$	453,388
Vehicle leases and rentals		286,924		299,166
Audit and professional fees		217,828		200,692
Advertising and promotion		161,956		165,755
Fees and other dues		146,382		121,728
Interest and bank charges		131,813		113,873
Travel		106,961		119,963
Affiliation dues		67,059		65,865
Postage and delivery		31,883		25,455
Interest on capital lease		4,282		5,933
Foreign exchange (gain) loss		(1,536)		1,399
	$	1,663,814	$	1,573,217
Materials costs				
Supplies	$	409,001	$	318,744
Materials		17,963		18,560
	$	426,964	$	337,304

15. Comparative Figures

Certain comparative figures have been restated to conform with current year’s presentation.