Financial Statements of

[redacted]

Year ended December 31, 2014

KPMG LLP
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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, 2014, 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, 2014, 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 21, 2015
Edmonton, Canada

[redacted]

Financial Statements

Year ended December 31, 2014

[redacted]

Statement of Financial Position

December 31, 2014, with comparative information for 2013

		2014		2013
ASSETS				
Current				
Cash and cash equivalents	**$**	**537,968**	$	685,805
Investments (note 3)		**320,756**		317,736
Accounts receivable		**208,843**		194,258
Inventory		**1,785**		6,630
Prepaid expenses and deposits		**32,625**		49,995
		1,101,977		1,254,424
Investments (note 3)		**226,770**		219,524
Prepaid expenses and deposits		**333,297**		317,811
Property and equipment (note 4)		**2,338,481**		2,324,810
	$	**4,000,525**	$	4,116,569
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 11)	**$**	**1,918,956**	$	1,483,988
Deferred revenues		**57,902**		77,208
Deferred contributions (note 6)		**57,271**		130,768
Current portion of obligations under capital lease (note 8)		**17,800**		20,244
		2,051,929		1,712,208
Deferred capital contributions (note 7)		**128,702**		122,447
Obligations under capital lease (note 8)		**21,122**		38,725
Straight-line rent and tenant inducements payable (note 9)		**1,263,527**		1,504,531
		3,465,280		3,377,911
Net assets		**535,245**		738,658
	$	**4,000,525**	$	4,116,569

Commitments (note 12)

See accompanying notes to financial statements.

On behalf of the Board:

______________________________, Director ______________________________, Director

[redacted]

Statement of Operations

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

	2014	2013
Revenues		
Commercial	**$ 19,225,212**	$ 18,446,374
Provincial contract fees (note 6)	**2,489,045**	2,208,589
United Way	**156,856**	177,728
Donations, grants and contributions	**67,483**	81,848
Amortization of deferred capital contributions	**62,446**	62,167
Unrealized gain on investments	**10,266**	12,448
Interest revenue	**284**	4,963
	22,011,592	20,994,117
Expenses		
Human resource costs (note 14)	**13,664,328**	13,291,714
Occupancy costs (note 14)	**5,654,644**	5,397,023
Other operating costs (note 14)	**1,839,774**	1,663,814
Amortization of property and equipment	**595,072**	523,050
Material costs (note 14)	**461,187**	426,964
	22,215,005	21,302,565
(Deficiency) of revenues over expenses	**$ (203,413)**	$ (308,448)

See accompanying notes to financial statements.

[redacted]

Statement of Changes in Net Assets

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

2014		Unrestricted		Investment in property and equipment		**Total**
Net assets, 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, end of year	$	(1,635,612)	$	2,170,857	**$**	**535,245**

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

See accompanying notes to financial statements.

[redacted]

Statement of Cash Flows

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

	2014	2013
Cash provided by (used in):		
Operating activities:		
(Deficiency) of revenues over expenses	$ (203,413)	$ (308,448)
Amortization of property and equipment	595,072	523,050
Straight-line rent (note 9)	(91,081)	(80,420)
Amortization of deferred capital contributions (note 7)	(62,446)	(62,167)
Amortization of deferred tenant inducements (note 9)	(149,923)	(153,864)
	88,209	(81,849)
Change in non-cash operating working capital		
Accounts receivable	(14,585)	76,583
Inventory	4,845	560
Prepaid expenses and deposits	17,370	6,900
Non-current prepaid expenses and deposits	(15,486)	1,830
Accounts payable and accrued liabilities	434,968	145,078
Accrued benefit liability	-	(24,000)
Deferred revenues	(19,306)	9,722
Deferred contributions	(73,497)	(196,130)
	422,518	(61,306)
Financing activities:		
Repayment of obligations under capital lease	(20,047)	(19,389)
Capital contributions received (note 7)	68,701	-
Tenant inducement received (note 9)	-	55,565
	48,654	36,176
Investing activities:		
Unrealized gain on investments	(10,266)	(12,448)
Purchase of property and equipment	(608,743)	(230,801)
	(619,009)	(243,249)
Net decrease in cash and cash equivalents	(147,837)	(268,379)
Cash and cash equivalents, beginning of year	685,805	954,184
Cash and cash equivalents, end of year	$ 537,968	$ 685,805
Supplemental cash flow information:		
Cash interest paid	$ 9,085	$ 7,404

See accompanying notes to financial statements.

1. Purpose of the organization

[redacted]fit 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] 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 [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 defined contribution plan that was funded by the employee and employer on a shared basis. [redacted] also 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 [redacted] 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. ABC Ltd 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, ABC Ltd 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 ABC Ltd 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

		2014		2013
Investment cash account	**$**	**108,389**	$	55
Investment savings account		**212,367**		209,740
Corporate guaranteed investment certificate with stated annually compounding interest rate of 2.70% matured in 2014		-		107,941
		320,756		317,736
Corporate guaranteed investment certificates with stated annually compounding interest rates of 3.1% - 3.5% (2013 – 3.1% - 3.5%) with maturity dates up to 2016		**226,770**		219,524
	$	**547,526**	$	537,260

4. Property and equipment

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**

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

During the year, ABC Ltd wrote off fully amortized assets. Reductions to cost and accumulated amortization were $110,356 (2013 - $44,164).

Furniture and equipment includes assets under capital lease with a cost of $258,805 (2013 - $258,805) and accumulated amortization of $172,196 (2013 - $146,263).

5. Credit facility

ABC Ltd has a demand operating loan available to a maximum of $700,000 (2013- $700,000) of which $nil (2013 - $nil) has been advanced. The facility bears interest at the bank's prime rate plus 0.25% (2013 – 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, 2014 is $624,126 (2013 – $653,086).
(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:

		2014		2013
Balance, beginning of year	**$**	**130,768**	$	326,898
Contributions received		**2,415,548**		2,012,459
Contributions recognized as revenue		**(2,489,045)**		(2,208,589)
Balance, end of year	**$**	**57,271**	$	130,768

7. Deferred capital contributions

Changes in deferred capital contributions are as follows:

		2014		2013
Balance, beginning of year	**$**	**122,447**	$	184,614
Contributions received		**68,701**		-
Contributions recognized as revenue		**(62,446)**		(62,167)
Balance, end of year	**$**	**128,702**	$	122,447

8. Obligations under capital leases

		2014		2013
National Leasing	**$**	**38,922**	$	55,190
ARPAC		**-**		3,779
		38,922		58,969
Less current portion of obligation under capital lease		**(17,800)**		(20,244)
	$	**21,122**	$	38,725

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 $58,764 (2013 - $68,558).

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 $7,969 (2013 - $9,178).

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

2015	19,692
2016	19,692
2017	1,641
	41,025
Less amount representing interest	(2,103)
	$ 38,922

9. Straight-line rent and tenant inducements payable

		2014		2013
Tenant inducements	**$**	**616,707**	$	766,630
Straight-line rent		**646,820**		737,901
	$	**1,263,527**	$	1,504,531

During the year, ABC Ltd received $nil (2013 - $55,565) in tenant inducements and recognized $149,923 (2013- $153,864) 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 $91,081 (2013 - $80,420).

10. Employee future benefits

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

		2014		2013
Accrued benefit obligation	$	**(198,000)**		$
(620,000)				
Fair value of plan assets		177,000		744,000
Accrued benefit (liability) asset		**(21,000)**		124,000
Less: Valuation allowance		**-**		(124,000)
Accrued benefit (liability) asset, net of valuation allowance		**$**	**(21,000)**	$
-				

		2014		2013
Employer contributions	**$**	**-**	$	19,345
Benefits paid	**$**	**-**	$	45,369

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

		2014		2013
Employer contributions	**$**	**-**	$	230,819

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

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.

During the year, 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, 2015, 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 $125,209 (2013 - $117,032) which includes payroll related taxes.

12. Commitments

	Premises base rent	Vehicles and equipment rent	**Total**
2015	$ 3,849,560	$ 55,200	**$ 3,904,760**
2016	3,433,954	16,385	**3,450,339**
2017	3,117,322	13,122	**3,130,444**
2018	2,349,864	4,882	**2,354,746**
2019	2,011,748	808	**2,012,556**

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, 2014, 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. Funds are from US sales of books sold on the internet. Because of the materiality amount, it is management's opinion ABC Ltd is not exposed to significant foreign currency risk.

14. Operating expenses

Further details of operating expenses include the following:

	2014	2013
Human resource costs		
Salaries and wages	$ 12,053,011	$ 11,792,042
Employee benefits	1,315,388	1,309,751
Contracted labour	167,849	139,126
Training, recruitment and other costs	128,080	74,795
Defined benefit pension recovery	-	(24,000)
	$ 13,664,328	$ 13,291,714
Occupancy costs		
Rent and other occupancy costs	$ 4,448,966	$ 4,247,256
Repairs and maintenance	592,897	558,969
Utilities	389,919	367,673
Telephone and communications	142,520	151,460
Insurance	80,342	71,665
	$ 5,654,644	$ 5,397,023
Other costs		
Disposal fees	$ 596,312	$ 510,262
Vehicle leases and rentals	307,104	286,924
Audit and professional fees	152,788	217,828
Advertising and promotion	372,347	161,956
Fees and other dues	58,916	146,382
Interest and bank charges	141,875	131,813
Travel	112,085	106,961
Affiliation dues	70,068	67,059
Postage and delivery	24,588	31,883
Interest on capital lease	3,975	4,282
Foreign exchange (gain) loss	(284)	(1,536)
	$ 1,839,774	$ 1,663,814
Materials costs		
Supplies	$ 439,879	$ 409,001
Materials	21,308	17,963
	$ 461,187	$ 426,964

15. Comparative information

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