

COMMUNITY FORESTS INTERNATIONAL

Financial Statements

Year Ended October 31, 2019

COMMUNITY FORESTS INTERNATIONAL

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Year Ended October 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Members of Community Forests International

Qualified Opinion

We have audited the financial statements of Community Forests International (the Organization), which comprise the statement of financial position as at October 31, 2019, and the statements of changes in net assets, revenues and expenditures and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at October 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Opinion

In common with many not-for-profit organizations, the Organization derives revenue from donations and fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Organization. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended October 31, 2019, current assets and net assets as at October 31, 2019.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

(continues)

Independent Auditor's Report to the Members of Community Forests International *(continued)*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Fredericton, New Brunswick
January 8, 2020

CHARTERED PROFESSIONAL ACCOUNTANTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Financial Position

October 31, 2019

	2019	2018
ASSETS		
CURRENT		
Cash	\$ 194,349	\$ 167,750
Guaranteed investment certificates	207,650	107,650
Accounts receivable (Note 4)	44,891	22,771
Prepaid expenses	5,054	3,760
	<u>451,944</u>	301,931
PROPERTY AND EQUIPMENT (Note 5)	<u>674,001</u>	413,508
	<u>\$ 1,125,945</u>	\$ 715,439
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 12,158	\$ 14,869
Government remittances payable	4,390	3,969
Deferred revenue (Note 9)	52,848	34,733
Current portion of long term debt (Note 6)	46,224	-
	<u>115,620</u>	53,571
LONG TERM DEBT (Note 6)	57,901	-
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	<u>22,660</u>	28,345
	<u>196,181</u>	81,916
NET ASSETS		
General fund	910,225	604,331
Pemba fund	11,889	21,542
Stewardship Endowment fund	7,650	7,650
	<u>929,764</u>	633,523
	<u>\$ 1,125,945</u>	\$ 715,439

ON BEHALF OF THE BOARD

_____ Director

_____ Director

COMMUNITY FORESTS INTERNATIONAL

Statement of Changes in Net Assets

Year Ended October 31, 2019

	General Fund	Pemba Fund (Schedule 1)	Stewardship Endowment Fund	2019	2018
NET ASSETS - BEGINNING OF YEAR	\$ 604,331	\$ 21,542	\$ 7,650	\$ 633,523	\$ 478,323
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	305,894	(9,653)	-	296,241	155,200
NET ASSETS - END OF YEAR	\$ 910,225	\$ 11,889	\$ 7,650	\$ 929,764	\$ 633,523

COMMUNITY FORESTS INTERNATIONAL

Statement of Revenues and Expenditures

Year Ended October 31, 2019

	2019	2018
REVENUE		
Donations <i>(Note 12)</i>	\$ 179,881	\$ 183,382
Grants <i>(Note 13)</i>	311,082	191,324
Pemba Fund <i>(Schedule 1)</i>	43,558	46,560
Consulting	14,695	8,276
Carbon offsets	205,495	109,156
	<u>754,711</u>	<u>538,698</u>
EXPENSES		
Advertising and promotion	9,345	5,519
Insurance	5,556	4,197
Interest and bank charges	2,272	1,354
Interest on long term debt	3,966	118
Memberships	1,718	705
Office	6,950	8,815
Pemba Fund <i>(Schedule 1)</i>	53,211	79,243
Professional fees	19,864	28,678
Projects and workshops	22,452	724
Property taxes	2,639	3,112
Rent <i>(Note 7)</i>	12,000	12,000
Repairs and maintenance	6,997	1,830
Salaries and wages	292,347	217,718
Training and conventions	5,777	718
Travel	9,164	11,033
Wood purchases	1,800	-
	<u>456,058</u>	<u>375,764</u>
EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS	<u>298,653</u>	<u>162,934</u>
OTHER REVENUE (EXPENSES)		
Loss on disposal of investments	(1,202)	(1,201)
Amortization	(8,770)	(9,540)
Amortization of deferred capital contributions	5,685	3,007
Other	1,875	-
	<u>(2,412)</u>	<u>(7,734)</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 296,241</u>	<u>\$ 155,200</u>

COMMUNITY FORESTS INTERNATIONAL

**Statement of Cash Flows
Year Ended October 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 296,241	\$ 155,200
Items not affecting cash:		
Amortization	8,770	9,540
Amortization of deferred capital contributions	<u>(5,685)</u>	<u>(3,007)</u>
	<u>299,326</u>	<u>161,733</u>
Changes in non-cash working capital:		
Accounts receivable	(22,120)	(7,835)
Accounts payable	(2,710)	(21,722)
Government remittances payable	421	456
Deferred revenue	18,115	1,089
Prepaid expenses	<u>(1,294)</u>	<u>(2,560)</u>
	<u>(7,588)</u>	<u>(30,572)</u>
	<u>291,738</u>	<u>131,161</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(269,263)	(15,425)
Purchase of guaranteed investment certificates	<u>(100,000)</u>	<u>(107,650)</u>
	<u>(369,263)</u>	<u>(123,075)</u>
FINANCING ACTIVITIES		
Proceeds from long term debt	228,740	-
Repayment of long term debt	<u>(124,616)</u>	<u>(14,130)</u>
	<u>104,124</u>	<u>(14,130)</u>
INCREASE (DECREASE) IN CASH	26,599	(6,044)
CASH- BEGINNING OF YEAR	<u>167,750</u>	<u>173,794</u>
CASH - END OF YEAR	<u>\$ 194,349</u>	<u>\$ 167,750</u>

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

1. PURPOSE OF THE ORGANIZATION

Community Forests International (the "organization") is a not-for-profit organization incorporated federally under the Canada Not-for-profit Corporations Act. The purpose of this organization is to foster environmental stewardship internationally by establishing community forests, promoting sustainable forestry techniques and initiating environmental education. As a registered charity the organization is exempt from the payment of income tax under Section 149(1) of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Cash

The company considers cash on hand, short-term deposits and balances with banks, net of overdrafts as cash.

Guaranteed investment certificates

Guaranteed investment certificates are interest bearing at rates between 1.5% and 1.7% per annum and have maturity dates within one year.

Revenue recognition

Community Forests International follows the restricted fund method of accounting for contributions.

Restricted contributions related to general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. Costs incurred in the administration of the organization and for projects and workshops are expensed in this Fund. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

The Pemba Fund recognizes as income restricted donations made to support the organization's assistance of Community Forests Pemba. Donations of cash and materials to Community Forests Pemba and travel costs are expensed in this Fund.

The Stewardship Endowment Fund recognizes as income restricted grants made to support the organization's acquisition and maintenance of the Pace property. Federal government grants recognized as revenue must be matched 2:1 by other non-federal government sources. A requirement for the Stewardship Endowment Fund is to maintain a balance of \$7,650 (15% of the value of the property), the income from which is to be used for stewardship of the land.

Unrestricted contributions are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from carbon offsets is recognized in the same period the offsets are retired. In order for a carbon offset to be retired it must have been created through appropriate activities and then retired by application to a purchase contract. Carbon offsets cannot be retired more than once.

Revenue from consulting is recorded in the period it is earned and when collection is reasonably assured.

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COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Donated goods and services

Donated property, marketable securities and other non-cash donations are recorded as contributions at their estimated fair market value at the date of the donation.

Volunteers contribute a significant amount of their time each year. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Significant estimates include allowances for receivables and useful lives of property and equipment. Actual results could differ from these estimates.

Financial instruments policy

The organization considers any contracts a financial asset, liability, or equity instrument as a financial instrument, except in certain limited circumstances. The organization accounts for the following as financial instruments:

1. Cash and cash equivalents
2. Trade and other receivables
3. Payables and accruals
4. Long term debt
5. Investments

A financial asset or liability is recognized when the organization becomes party to contractual provisions of the instrument.

The organization initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

Financial assets or liabilities obtained in related party transactions are measured in accordance with the accounting policy for related party transactions except for those transactions that are with a person or entity whose sole relationship with the organization is in the capacity of management in which case they are accounted for in accordance with financial instruments.

The organization subsequently measures its financial assets and financial liabilities at cost or amortized cost less any reduction for impairment, except for investments quoted in active markets which are measured at fair value.

The organization removes financial liabilities, or a portion of, when the obligation is discharged, cancelled, or expires.

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COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Property and equipment are stated at cost or deemed cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Buildings	10%	declining balance method
Farm equipment	20%	declining balance method
Office equipment	20%	declining balance method
Computers	20%	declining balance method

The organization regularly reviews its property and equipment to eliminate obsolete items.

3. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of October 31, 2019.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from funding agencies. The organization has a significant number of funding agencies which minimizes concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its receipt of funds from its funding agencies, and other related sources, long-term debt, and accounts payable.

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization is exposed to foreign currency exchange risk on grants and consulting revenue in U.S. dollars and Euros from Community Forests Pemba. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its credit facilities.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

4. ACCOUNTS RECEIVABLE

	2019	2018
Government grants	\$ -	\$ 5,000
Trade and other	38,947	14,538
HST receivable	5,944	3,233
	\$ 44,891	\$ 22,771

There is no allowance for doubtful accounts in 2019 or 2018. All receivables have either been received subsequent to year end, or arrangements have been made for collection.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 609,446	\$ -	\$ 609,446	\$ 340,183
Buildings	101,390	48,335	53,055	58,950
Farm equipment	26,380	21,362	5,018	6,272
Office equipment	7,012	3,139	3,873	4,841
Computers	7,078	4,469	2,609	3,262
	\$ 751,306	\$ 77,305	\$ 674,001	\$ 413,508

6. LONG TERM DEBT

	2019	2018
CBDC Westmorland Albert mortgage bearing interest at 6% per annum, repayable in monthly blended payments of \$1,765. The loan matures on January 1, 2024 and is secured by land with a book value of \$248,263.	\$ 79,081	\$ -
Private loan bearing interest at 0% per annum, repayable on no fixed schedule by December 14, 2019 and secured by land with a book value of \$248,263.	25,044	-
	104,125	-
Amounts payable within one year	(46,224)	-
	\$ 57,901	\$ -

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

7. RELATED PARTY TRANSACTIONS

Community Forests Pemba was established to act as an agent for Community Forests International in Pemba, Zanzibar, Tanzania. The organization was incorporated under the Laws of Zanzibar as a Non-Government Organization. The net assets of the Pemba Fund are to be transferred to Community Forests Pemba on an as-needed basis and used for purposes to be agreed upon by Community Forests International and Community Forests Pemba. The organization received consulting revenue of \$nil (2018 - \$8,276) for services provided to Community Forests Pemba. A grant of \$941 (2018 - \$5,629) was recorded in the Pemba Fund as reimbursement for travel to Pemba.

The organization leases office space from the Chairperson at a cost of \$1,000 per month or \$12,000 annually (2018 - \$12,000). The lease is renewed annually with the most recent one expiring October 31, 2020.

All related party transactions are recorded at fair market value.

8. SHARE OPTIONS

Community Forests International holds the option to purchase 10,000 common shares of Jaza Energy Inc. These options vest at the rate of 25% per grant anniversary. Currently none of these options have vested. The organization has not recorded these options in the financial statements as they were acquired for \$nil cost and are not quoted in an active market.

9. DEFERRED REVENUE

	2019	2018
Opening balance	\$ 34,733	\$ 33,644
Amounts received	198,371	114,460
Recognized as revenue	(180,255)	(113,371)
	<u>\$ 52,849</u>	<u>\$ 34,733</u>

10. DEFERRED CAPITAL CONTRIBUTIONS

	Opening balance	Amounts received	Recognized as revenue	2019
Tree Nursery (Shed)	\$ 1,139	\$ -	\$ 114	\$ 1,025
Waelghinbran Farm (Building & Equipment)	6,021	-	753	5,268
Nature Cabin (Building)	18,185	-	1,818	16,367
Waelghinbran Farm (Bridge)	3,000	-	3,000	-
	<u>\$ 28,345</u>	<u>\$ -</u>	<u>\$ 5,685</u>	<u>\$ 22,660</u>

Government grants and other contributions applicable to depreciable capital assets (excludes land) are deferred and amortized to income on the same basis as the corresponding assets acquired.

11. CONTRIBUTIONS TO ACQUIRE LAND

Government grants and other contributions applicable to the acquisition of land and other non-depreciable capital assets are recorded as a credit to the General Fund on the Statement of Changes in Net Assets.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2019

12. DONATIONS

The organization received a donation of investments with an aggregate market value on the date of the donation of \$111,240 (2018 - \$106,250) from a single donor.

13. GRANTS

	<u>2019</u>	<u>2018</u>
Federal	\$ 52,274	\$ 70,683
Provincial	61,044	34,968
Other	<u>197,764</u>	<u>85,673</u>
	<u>\$ 311,082</u>	<u>\$ 191,324</u>

COMMUNITY FORESTS INTERNATIONAL

Pemba Fund

(Schedule 1)

Year Ended October 31, 2019

	2019	2018
REVENUES		
Donations	\$ 42,617	\$ 40,931
Grants	941	5,629
	<u>43,558</u>	<u>46,560</u>
EXPENSES		
Contributions	40,000	65,231
Travel	13,211	14,012
	<u>53,211</u>	<u>79,243</u>
DEFICIENCY OF REVENUE OVER EXPENSES	<u>\$ (9,653)</u>	<u>\$ (32,683)</u>