

COMMUNITY FORESTS INTERNATIONAL

Financial Statements

Year Ended October 31, 2021

COMMUNITY FORESTS INTERNATIONAL

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Year Ended October 31, 2021

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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, 2021, 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, 2021, 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, 2021, current assets and net assets as at October 31, 2021.

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
April 8, 2022

CHARTERED PROFESSIONAL ACCOUNTANTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Financial Position

October 31, 2021

	2021	2020
ASSETS		
CURRENT		
Cash	\$ 803,218	\$ 334,781
Guaranteed investment certificates	-	212,123
Accounts receivable (Note 4)	128,788	99,404
Prepaid expenses	3,795	3,795
Investment in shares at cost	5,000	5,000
	<u>940,801</u>	655,103
PROPERTY AND EQUIPMENT (Note 5)	<u>930,929</u>	703,732
	<u>\$ 1,871,730</u>	\$ 1,358,835
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 39,323	\$ 40,931
Government remittances payable	8,729	7,021
Deferred revenue (Note 9)	303,949	85,513
Current portion of long term debt (Note 6)	18,796	17,719
	<u>370,797</u>	151,184
LONG TERM DEBT (Note 6)	90,181	88,741
DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	18,121	20,262
	<u>479,099</u>	260,187
NET ASSETS		
General fund	1,324,490	1,033,889
Pemba fund	60,491	57,109
Stewardship Endowment fund	7,650	7,650
	<u>1,392,631</u>	1,098,648
	<u>\$ 1,871,730</u>	\$ 1,358,835

ON BEHALF OF THE BOARD

X _____ Director

X _____ Director

COMMUNITY FORESTS INTERNATIONAL

Statement of Changes in Net Assets

Year Ended October 31, 2021

	General Fund	Pemba Fund (Schedule 1)	Stewardship Endowment Fund	2021	2020
NET ASSETS - BEGINNING OF YEAR	\$ 1,033,889	\$ 57,109	\$ 7,650	\$ 1,098,648	\$ 929,764
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	290,601	3,382	-	293,983	168,884
NET ASSETS - END OF YEAR	\$ 1,324,490	\$ 60,491	\$ 7,650	\$ 1,392,631	\$ 1,098,648

COMMUNITY FORESTS INTERNATIONAL

Statement of Revenues and Expenditures

Year Ended October 31, 2021

	2021	2020
REVENUE		
Carbon offsets	\$ 344	\$ 83,264
Consulting	86,294	35,000
Donations <i>(Note 13)</i>	430,239	200,986
Grants <i>(Note 14)</i>	485,797	246,809
Pemba Fund <i>(Schedule 1)</i>	55,926	126,080
	1,058,600	692,139
EXPENSES		
Accounting fees	20,242	14,001
Advertising and promotion	19,129	14,323
Consulting fees	54,160	48,134
Insurance	7,322	8,416
Interest and bank charges	3,990	2,335
Interest on long term debt	3,696	3,265
Memberships	3,407	2,126
Office	8,176	8,394
Pemba Fund <i>(Schedule 1)</i>	52,544	80,860
Professional fees	10,063	4,058
Projects and workshops	2,572	384
Property taxes	3,296	2,824
Rent <i>(Note 7)</i>	12,000	12,000
Repairs and maintenance	672	2,202
Salaries and wages	469,848	314,691
Training and conventions	485	1,113
Travel	5,664	7,203
Tree planting	86,000	-
	763,266	526,329
EXCESS OF REVENUE OVER EXPENSES FROM OPERATIONS	295,334	165,810
OTHER REVENUE (EXPENSES)		
Amortization of property and equipment	(7,047)	(7,747)
Amortization of deferred capital contributions	2,141	2,398
Other	3,555	8,423
	(1,351)	3,074
EXCESS OF REVENUE OVER EXPENSES	\$ 293,983	\$ 168,884

COMMUNITY FORESTS INTERNATIONAL

Statement of Cash Flows

Year Ended October 31, 2021

	2021	2020
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 293,983	\$ 168,884
Items not affecting cash:		
Amortization of property and equipment	7,047	7,747
Amortization of deferred capital contributions	<u>(2,141)</u>	<u>(2,398)</u>
	<u>298,889</u>	<u>174,233</u>
Changes in non-cash working capital:		
Accounts receivable	(29,384)	(54,513)
Accounts payable	(1,607)	28,773
Government remittances payable	1,708	2,631
Deferred revenue	218,436	32,665
Prepaid expenses	<u>-</u>	<u>1,259</u>
	<u>189,153</u>	<u>10,815</u>
	<u>488,042</u>	<u>185,048</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(234,244)	(37,479)
Guaranteed investment certificates	<u>212,123</u>	<u>(9,473)</u>
	<u>(22,121)</u>	<u>(46,952)</u>
FINANCING ACTIVITIES		
Proceeds from long term debt	20,000	40,000
Repayment of long term debt	<u>(17,484)</u>	<u>(37,664)</u>
	<u>2,516</u>	<u>2,336</u>
INCREASE IN CASH	468,437	140,432
CASH- BEGINNING OF YEAR	<u>334,781</u>	<u>194,349</u>
CASH - END OF YEAR	<u>\$ 803,218</u>	<u>\$ 334,781</u>

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2021

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.

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 income as 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, 2021

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, deferred revenue 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, 2021

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, 2021.

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, 2021

4. ACCOUNTS RECEIVABLE

	2021	2020
Trade and other	\$ 72,108	\$ 87,021
Federal grants	19,907	8,759
Provincial grants	19,819	-
HST receivable	16,954	3,624
	\$ 128,788	\$ 99,404

There is no allowance for doubtful accounts in 2021 or 2020. All receivables have either been received subsequent to year end, or arrangements have been made for collection.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2021 Net book value	2020 Net book value
Land	\$ 877,979	\$ -	\$ 877,979	\$ 645,505
Buildings	101,390	58,415	42,975	47,750
Farm equipment	26,380	23,169	3,211	4,014
Office equipment	8,432	5,108	3,324	4,376
Computers	8,848	5,408	3,440	2,087
	\$ 1,023,029	\$ 92,100	\$ 930,929	\$ 703,732

6. LONG TERM DEBT

	2021	2020
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.	\$ 48,977	\$ 66,460
RBC (CEBA) interest-free loan with no principal repayments, (with \$20,000 forgiven if 40,000 repaid by December 31, 2023 or convert to a 5% monthly interest-only term loan on January 1, 2024 with \$60,000 principal repayment to be repaid in full by December 31, 2025).	60,000	40,000
	108,977	106,460
Amounts payable within one year	(18,796)	(17,719)
	\$ 90,181	\$ 88,741

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2021

7. RELATED PARTY TRANSACTIONS

The organization leases office space from the Chairperson at a cost of \$1,000 per month or \$12,000 annually (2020 - \$12,000). The lease is renewed annually with the most recent one expiring October 31, 2021.

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 10,000 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

	2021	2020
Opening balance	\$ 85,513	\$ 52,848
Amounts received	410,544	80,000
Recognized as revenue	<u>(192,108)</u>	<u>(47,335)</u>
	<u>\$ 303,949</u>	<u>\$ 85,513</u>

10. DEFERRED CAPITAL CONTRIBUTIONS

	Opening balance	Amounts received	Recognized as revenue	2021
Tree Nursery (Shed)	\$ 922	\$ -	\$ 92	\$ 830
Waelghinbran Farm (Building & Equipment)	4,610	-	576	4,034
Nature Cabin (Building)	14,730	-	1,473	13,257
	<u>\$ 20,262</u>	<u>\$ -</u>	<u>\$ 2,141</u>	<u>\$ 18,121</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.

12. SIGNIFICANT EVENT

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial assets and condition of Community Forests International in future periods.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2021

13. DONATIONS

The organization received a donation of investments with an aggregate market value on the date of the donation of \$148,466 (2020 - \$118,101) from a single donor.

14. GRANTS

	<u>2021</u>	<u>2020</u>
Federal	\$ 209,199	\$ 38,474
Provincial	40,644	41,924
Other	<u>235,954</u>	<u>166,411</u>
	<u>\$ 485,797</u>	<u>\$ 246,809</u>

COMMUNITY FORESTS INTERNATIONAL

Pemba Fund

(Schedule 1)

Year Ended October 31, 2021

	2021	2020
REVENUES		
Donations	\$ 55,926	\$ 126,080
EXPENSES		
Contributions	45,412	78,500
Travel	7,132	2,360
	<u>52,544</u>	<u>80,860</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 3,382</u>	<u>\$ 45,220</u>