

**Red de Agricultura  
Sostenible A. C. and  
Subsidiary**

Consolidated Financial  
Statements for the Years  
Ended December 31, 2016  
and 2015, and Independent  
Auditors' Report Dated May  
31, 2017

**Red de Agricultura Sostenible A.C. and Subsidiary**  
**Independent Auditors' Report and**  
**Consolidated Financial Statements for 2016**  
**and 2015**

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## **Independent Auditors' Report to the General Assembly of Red de Agricultura Sostenible A. C. and Subsidiary**

### ***Opinion***

We have audited the accompanying consolidated financial statements of Red de Agricultura Sostenible. A. C. and subsidiary (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the consolidated statements of activities and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board.

### ***Basis for Opinion***

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for professional Accountants (IESBA Code) and with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Other matter***

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with NIF, 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 consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters, related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Victor Manuel Alvarado Cedillo

May 31, 2017

## Red de Agricultura Sostenible A. C. and Subsidiary

# Consolidated Statements of Financial Position

As of December 31, 2016 and 2015  
(In US dollars)

<b>Assets</b>	Notes	2016	2015
Current assets:			
Cash		\$ 1,909,711	\$ 1,369,415
Other accounts receivables	5	22,351	19,060
Rainforest Alliance - related parties	10	562,466	553,373
Prepaid expenses		<u>49,556</u>	<u>58,131</u>
Total current assets		2,544,084	1,999,979
 Furniture and equipment - Net	 6	 67,422	 63,774
 Software - Net		 987	 8,430
 Guarantee deposits		 <u>3,965</u>	 <u>3,967</u>
 Total assets		 <u>\$ 2,616,458</u>	 <u>\$ 2,076,150</u>
 <b>Liabilities and Patrimony</b>			
Current liabilities:			
Trade accounts payable		\$ 15,220	\$ 32,910
Advances received from customers		10,142	71,702
Accrued expenses and taxes	8	<u>86,069</u>	<u>83,348</u>
Total liabilities		<u>111,431</u>	<u>187,960</u>
 Unrestricted Patrimony:			
Accumulated patrimony		3,177,610	2,163,563
Cumulative translation adjustments		<u>(672,583)</u>	<u>(275,373)</u>
Total Patrimony:		<u>2,505,027</u>	<u>1,888,190</u>
 Total liabilities and patrimony		 <u>\$ 2,616,458</u>	 <u>\$ 2,076,150</u>

See accompanying notes to consolidated financial statements.

## Red de Agricultura Sostenible A.C. and Subsidiary

# Consolidated Statements of Activities

For the years ended December 31, 2016 and 2015

(In US dollars)

	Notes	2016	2015
Revenue:			
Royalties		\$ 2,984,776	\$ 3,147,835
Other income		<u>61,653</u>	<u>52,943</u>
		3,046,429	3,200,778
Operating expenses	11	2,276,046	1,733,694
Interest income		(1,352)	(722)
Interest expenses		6	15
Exchange gain - Net		<u>(288,951)</u>	<u>(169,723)</u>
		1,985,749	1,563,264
Patrimony increase before income taxes		1,060,680	1,637,514
Income taxes expense		46,633	20,131
Patrimony at the beginning of the year		<u>2,163,563</u>	<u>546,180</u>
Accumulated patrimony		<u>\$ 3,177,610</u>	<u>\$ 2,163,563</u>

See accompanying notes to consolidated financial statements.

## Red de Agricultura Sostenible A.C. and Subsidiary

# Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(In US dollars)

	2016	2015
Operating activities:		
Patrimony increase before income taxes	\$ 1,060,680	\$ 1,638,203
Adjustments for:		
Depreciation and amortization	21,470	17,590
Interest income	(1,352)	(722)
Interest expense	6	15
	<u>1,080,804</u>	<u>1,655,086</u>
(Increase) decrease in:		
Other accounts receivables	(3,291)	(12,656)
Related parties	(9,093)	(553,373)
Prepaid expenses	8,575	(27,430)
Increase (decrease) in:		
Trade accounts payable	(17,690)	29,441
Taxes, accrued expenses and deferred income	(58,642)	106,701
Income taxes paid	(46,831)	(20,131)
Net cash provided by operating activities	<u>953,832</u>	<u>1,177,638</u>
Investing activities:		
Acquisition of furniture and equipment	(17,675)	(56,665)
Acquisition of software	-	(1,267)
Interest received	1,352	722
Net cash used in investing activities	<u>(16,323)</u>	<u>(57,210)</u>
Financing activities:		
Interest paid	(6)	(15)
Net cash used in financing activities	<u>(6)</u>	<u>(15)</u>
Net increase in cash	937,503	1,120,413
Cash at beginning of year	1,369,416	461,060
Effects of exchange rates changes on cash	<u>(397,208)</u>	<u>(212,058)</u>
Cash at end of year	<u>\$ 1,909,711</u>	<u>\$ 1,369,415</u>

See accompanying notes to consolidated financial statements.

## Red de Agricultura Sostenible A.C. and Subsidiary

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(In US dollars)

### 1. Activities

Red de Agricultura Sostenible A.C and Subsidiary (the “Entity”) is a corporation incorporated under the laws of Mexico. The address of its corporate offices is Insurgentes Sur 1070 P9, San Borja Insurgentes, 03100, in Mexico City, Mexico.

The Entity is composed of an international group of non-profit organizations working for biodiversity conservation and rural development.

The Entity is part of a coalition of leading conservation groups in Africa, Asia and Europe that support the adoption of better agricultural practices and link farmers with responsible consumers through the Rainforest Alliance Certified.

### 2. Application of new and revised International Financial Reporting Standards

#### a. *Application of new and revised International Financing Reporting Standards (“IFRSs” or “IAS”) and interpretations that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

#### **Amendments to IAS 1 Disclosure Initiative**

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The application of these amendments to IAS 1 did not have impacts on the Entity’s consolidated financial statements.

#### **Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently.



b. *New and revised IFRSs in issue but not yet effective*

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 7                      Statements of Cash Flows <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

The management of the Entity expects that there may be some impacts a result of these amendments.

3. **Significant accounting policies**

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by the IASB.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

c. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Entity and its subsidiaries controlled by it. See Note 7 for more information. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intra-Entity assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. ***Financial assets***

Financial assets are recognized when the Entity or any of its subsidiaries becomes a party to the contract governing such financial instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” “investments”, “available-for-sale” (AFS) financial assets and “loans and receivable”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. At the reporting date of the consolidated financial statements the Entity had only financial instruments classified as loans and receivables.

i. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term accounts receivable when the effect of discounting is immaterial. Accounts receivable are mainly comprised of trade receivables.

iii. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, a significant or prolonged decline in the fair value of the equity instrument below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets recorded at cost, the amount for the impairment loss is calculated as the difference between the book value of the asset and the current value of the estimated future cash flows, deducted from the current rate of the exchange market for a similar financial asset. Such impairment loss will not be reverted to subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trading receivables, where the carrying amount is reduced through the use of an allowance account. When a trading receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

iv. Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

e. ***Prepaid expenses***

Prepaid expenses are measured at the amount of cash paid and recognized as assets from the date in which the payment is made. They are recognized in profit or loss during the period in which the related services are received or the goods are used. They are classified as short-term or long-term depending on whether the period of use of the services or goods goes beyond 12 months.

f. ***Furniture and equipment***

Furniture and equipment are initially recognized at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in such estimates accounted for on a prospective basis.

An item of furniture and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of furniture and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets, as follows:

	Average years
Leasehold improvements	3
Furniture and equipment	10
Computers	5

Leasehold improvements are amortized over the shorter of their useful life or the term of the lease.

g. ***Software***

Costs incurred in the development phase that meet certain requirements and that the Entity has determined will have future economic benefits are capitalized and amortized using the straight-line method over their estimated useful lives. Disbursements that do not meet such requirements, as well as research cost, are recorded in profit or loss of the period in which they are incurred.

h. ***Impairment in value of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Entity of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less (or a cash-generating unit) than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

i. ***Financial liabilities and equity instruments***

(i) Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(ii) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

(iii) Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iv) Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(v) Offset

Financial assets and liabilities are subject to offset and the net amount is shown in the financial status statement only when the Entity has a legal right to offset the amounts and its purpose is to carry out liquidation on a net basis or to simultaneously realize the asset and liquidate the liability.

j. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Entity will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

k. ***Income taxes***

The Entity is not taxpayer of Income Taxes (ISR), so the Entity only pay taxes on the remaining distributable or items that are considered as such, therefore, no deferred income tax is recognized according to IAS 12, Income Taxes, as a non-profit organization purposes.

l. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the Entity's functional currency (Colón – Costa Rica) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into American dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled Entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

m. ***Revenue recognition***

Donations are recognized as an increase in equity when donations are received in cash, goods or services. Donations in goods and services are recognized in the financial statements at fair value.

– Royalties

Are recognized as they are accrued in accordance with the substance of the relevant agreement (provided that it is likely that the economic benefits will flow to the Entity and the income can be reliably measured). Royalties determined over a period of time are recognized using the straight-line method over the term of the agreement. Royalty agreements that are based on production, sales and other measurements are recognized by reference to the underlying agreement.

– Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

n. ***Statement of Cash Flows***

The Entity reports cash flows for investment transactions using the indirect method whereby the profit or loss is adjusted for the effects of transactions of a nature different than cash, any deferral of inflow or outflow of cash for past or future accumulation or entries of income or expenses associated with cash flows from investment or financing activities.

4. **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical accounting judgments when applying accounting policies***

As of December 31, 2016 there were no critical accounting judgments identified when applying accounting policies.

b. ***Key sources of estimation uncertainty:***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



i. ***Furniture and equipment***

The Entity determines the useful lives and residual values of its furniture and equipment based on its experience using the advice of internal specialists.

ii. ***Impairment testing***

The Entity is required to test its definite useful live long-lived assets for impairment when there are indicators that an impairment loss has occurred and to test its indefinite useful live assets and other intangible assets, at least on an annual basis. To calculate impairment losses of long-lived assets in use, it is necessary to determine the asset's recoverable amount. Recoverable amount is defined as the higher of the asset's fair value less cost to sell or its value in use, which is the present value of the future cash flows expected to be derived from the asset. Determining whether goodwill is impaired requires an estimation of the value-in use of the cash-generating units to which goodwill has been allocated. The value-in use calculation requires management to estimate the present value of the future cash flows expected to arise from the cash-generating unit, determined using a suitable discount.

5. **Other accounts receivable**

	2016	2015
Other accounts receivables	\$ 8,435	\$ 11,835
Recoverable income tax	<u>13,916</u>	<u>7,225</u>
	<u>\$ 22,351</u>	<u>\$ 19,060</u>

6. **Furniture and equipment**

	2016	2015
<b>Gross investment at cost:</b>		
Leasehold improvements	\$ 5,331	\$ 5,331
Furniture and equipment	52,276	40,924
Computers	<u>27,499</u>	<u>24,008</u>
Gross investment	<u>\$ 85,106</u>	<u>\$ 70,263</u>
<b>Accumulated depreciation:</b>		
Leasehold improvements	\$ (1,503)	\$ -
Furniture and equipment	(6,311)	(1,640)
Computers	<u>(9,870)</u>	<u>(4,849)</u>
Accumulated depreciation	<u>\$ (17,684)</u>	<u>\$ (6,489)</u>
<b>Net investment:</b>		
Leasehold improvements	\$ 3,828	\$ 5,331
Furniture and equipment	45,965	39,284
Computers	<u>17,629</u>	<u>19,159</u>
Total furniture and equipment - Net	<u>\$ 67,422</u>	<u>\$ 63,774</u>

a. The roll forward of the net book value of furniture and equipment is as follows:

	Buildings and leasehold improvements	Furniture and equipment	Computers	Total furniture and equipment
Balance at the beginning of 2015	\$ -	\$ 203	\$ 13,395	\$ 13,598
Additions	5,331	40,713	9,601	55,645
Depreciation	<u>-</u>	<u>(1,632)</u>	<u>(3,837)</u>	<u>(5,469)</u>
Balance as of December 31, 2015	5,331	39,284	19,159	63,774
Additions		11,352	3,491	13,340
Depreciation	<u>(1,503)</u>	<u>(4,671)</u>	<u>(5,021)</u>	<u>(9,692)</u>
Balance as of December 31, 2016	<u>\$ 3,828</u>	<u>\$ 45,965</u>	<u>\$ 17,629</u>	<u>\$ 67,422</u>

Depreciation expense is presented in the operating expenses line items in the consolidated statements of activities. During the years ended December 31, 2016 and 2015, there are not any impairment losses.

## 7. Consolidation of subsidiary

The subsidiary listed below is a company incorporated in Mexico with operations in Costa Rica.

The ownership interest and voting power held by the Entity in its direct subsidiary is as follows:

Entity	Ownership 2016	Ownership 2015	Activity
Red de Agricultura Sostenible CR S. A.	100.00%	100.00%	A non-profit company working for biodiversity conservation and rural development.

All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

## 8. Accrued expenses and taxes

	2016	2015
Taxes payable - mainly ISR	\$ 27,132	\$ 33,890
Accrued operating expenses	<u>58,937</u>	<u>49,458</u>
	<u>\$ 86,069</u>	<u>\$ 83,348</u>

## 9. Financial instruments

### a. Categories of financial instruments:

The Entity recognizes all of the assets or liabilities arising from operations with derivative financial instruments in the balance sheet at fair value, regardless of the purpose for which they are held. The Entity's general strategy has not been modified this year. The Entity's general strategy has not been modified this year.

The main financial instruments of the Entity as presented in the consolidated financial statements are as follows:

	2016	2015
i. Cash	\$ 1,909,711	\$ 1,369,415
ii. Other accounts receivables	22,351	15,637
iii. Rainforest Alliance - related parties Liabilities at amortized cost	562,466	556,796
iv. Trade accounts payable	15,220	32,910

During the year there were no reclassifications of financial instruments between categories.

b. **Liquidity risk management:**

If the Entity is unable to raise additional debt or equity, its results of operations could suffer. The Entity closely monitors the maturity of its liabilities and the cash needs of its operations. It prepares and provides a detailed cash flow analysis on a quarterly basis and presents it to its General Assembly. Decisions are made to obtain new financing or limit cash investments in order to maintain a healthy projected cash balance.

	Less than 1 year	More than 1 year and less than 5 years	More than 5 years
Trade accounts payable	\$ <u>15,220</u>	\$ <u>-</u>	\$ <u>-</u>

**10. Transactions with related parties**

Balances and transactions between the Entity and its subsidiary, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

a. Transactions with related parties during the years, carried out in the ordinary course of business, were as follows:

	2016	2015
<b>Revenue:</b>		
Royalties	\$ 2,984,777	\$ 3,122,003
Reimbursement	1,492	20,579
<b>Expenses:</b>		
Reimbursement	156,195	68,545

The above transactions with related parties were performed with the usual list of prices of the Entity.

**11. Operating expenses**

a. Operating expenses are as follows:

	2016	2015
Employee benefits	\$ 805,979	\$ 714,986
Rental expense	34,704	64,182
Insurance	65,488	47,962
Maintenance	12,760	9,646
Travel expenses	311,758	296,912
Depreciation and amortization	19,307	17,590
Fees	928,224	514,849
Marketing	5,616	6,291
Bank commissions	8,012	5,968
Telecommunication	14,940	10,926
Subscriptions	39,910	21,982
Other operating expenses	<u>29,348</u>	<u>22,400</u>
Total operating expenses	<u>\$ 2,276,046</u>	<u>\$ 1,733,694</u>

**12. Income taxes**

In accordance with article 79, section XII of Income Taxes Law, the Entity is not a contributor. The Entity may be subject to the payment of income taxes only for non-deductible expenses incurred and by received income from activities other than those which was authorized.

*Income taxes in other countries*, for Red de Agricultura Sostenible in Costa Rica calculate their individual income taxes, according to the regulations of that country. The income tax generated at December 31, 2016 and 2015 was \$46,633 and \$20,131, respectively.

**13. Authorization to issue the consolidated financial statements**

On May 31, 2017, the issuance of the consolidated financial statements was authorized by Geovanna Rojas Flores the Entity's Administrative and Finance Manager. These consolidated financial statements are subject to the approval at the General Assembly, which may decide to modify such consolidated financial statements according to the Mexican General Corporate Law.

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