

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

Consolidated Financial Statements for  
the Years Ended December 31, 2015  
and 2014, and Independent Auditors'  
Report Dated July 15, 2016

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

**Independent Auditors' Report and Consolidated  
Financial Statements for 2015 and 2014**

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

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, 2015 and 2014, 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.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence supporting the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Red de Agricultura Sostenible, A. C. and subsidiary as of December 31, 2015 and 2014, and their financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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



C. P. C. Carlos Torres Villagómez

July 15, 2016

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

# Consolidated Statement of Financial Position

As of December 31, 2015 and 2014  
(In US dollars)

<b>Assets</b>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
Current assets:			
Cash		\$ 1,369,415	\$ 461,060
Other accounts receivables	4	15,637	6,320
Related parties	10	556,796	-
Prepaid expenses		<u>58,131</u>	<u>28,428</u>
Total current assets		1,999,979	495,808
Furniture and equipment - Net	5	63,774	13,598
Software - Net		8,430	18,264
Guarantee deposits		<u>3,967</u>	<u>6,324</u>
Total		<u>\$ 2,076,150</u>	<u>\$ 533,994</u>
<b>Liabilities and Patrimony</b>			
Current liabilities:			
Trade accounts payable		\$ 32,910	\$ 3,110
Advances received from customers		71,702	-
Accrued expenses and taxes	8	<u>83,348</u>	<u>48,003</u>
Total liabilities		<u>187,960</u>	<u>51,113</u>
Unrestricted Patrimony:			
Accumulated patrimony		2,163,563	546,198
Cumulative translation adjustments		<u>(275,373)</u>	<u>(63,317)</u>
Total Patrimony:		<u>1,888,190</u>	<u>482,881</u>
Total		<u>\$ 2,076,150</u>	<u>\$ 533,994</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, 2015 and 2014

(In US dollars)

	Notes	2015	2014
Revenue:			
Royalties		\$ 3,147,835	\$ 1,321,576
Other income		<u>52,943</u>	<u>2,606</u>
		3,200,778	1,324,282
Operating expenses	11	1,733,694	794,827
Interest income		(722)	(101)
Interest expenses		15	52
Exchange gain - Net		<u>(169,723)</u>	<u>(36,525)</u>
		<u>1,563,264</u>	<u>758,253</u>
Patrimony increase before income taxes		1,637,514	565,929
Income taxes expense		20,131	19,749
Patrimony at the beginning of the year		<u>546,180</u>	<u>18</u>
Accumulated patrimony		<u>\$ 2,163,563</u>	<u>\$ 546,198</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, 2015 and 2014

(In US dollars)

	2015	2014
Operating activities:		
Patrimony increase before income taxes	\$ 1,638,203	\$ 546,180
Items related to investing activities:		
Depreciation and amortization	17,590	1,745
Interest income	(722)	(80)
Item related to financing activities:		
Interest expense	<u>15</u>	<u>52</u>
	1,655,086	547,897
(Increase) decrease in:		
Other accounts receivables	(9,233)	(6,320)
Related parties	(556,796)	
Prepaid expenses	(27,430)	(34,752)
Increase (decrease) in:		
Trade accounts payable	29,441	3,469
Taxes, accrued expenses and deferred income	<u>86,570</u>	<u>47,660</u>
Net cash provided by operating activities	1,177,638	557,954
Investing activities:		
Acquisition of furniture and equipment	(56,665)	(14,618)
Acquisition of software	(1,267)	(18,987)
Interest received	<u>722</u>	<u>80</u>
Net cash used in investing activities	(57,210)	(33,525)
Financing activities:		
Interest paid	<u>(15)</u>	<u>(52)</u>
Net cash used in financing activities	<u>(15)</u>	<u>(52)</u>
Net increase in cash	1,120,413	524,377
Cash at beginning of year	461,060	-
Effects of exchange rates changes on cash	<u>(212,058)</u>	<u>(63,317)</u>
Cash at end of year	<u>\$ 1,369,415</u>	<u>\$ 461,060</u>

See accompanying notes to consolidated financial statements.

# Red de Agricultura Sostenible A.C. and Subsidiary

## Notes to Financial Statements

For the years ended December 31, 2015 and 2014  
(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 Reforma 265 PH1, Cuauhtémoc, 06500, 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, 2015.

#### 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:

IFRS 9	Financial Instruments <sup>2</sup>
IFRS 16	Leases <sup>3</sup>
Amendments to IAS 1	Disclosure Initiative <sup>1</sup>
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

#### **IFRS 9, *Financial Instruments***

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

#### Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management does not anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Entity's financial assets and financial liabilities.

#### **IFRS 16, Leases**

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although by the nature of its operations it is expected to do not have significant impacts.

#### **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 amendments to IAS 1 are effective for annual periods beginning on or after 1, January 2016. The directors of the Entity do not anticipate that the application of these amendments to IAS 1 will have an impact 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, the Entity uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The Entity's management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have an impact on the Entity's consolidated financial statements.

### **3. Summary of significant accounting policies**

#### **a. *Statement of compliance***

The consolidated financial statements have been prepared in accordance with IFRS released by the IASB.

b. ***Basis of measurement***

The consolidated financial statements have been prepared on the historical cost basis except for, investment property and certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, 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;
- 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.

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 financial assets held for trading, available- for- sale financial assets and loans and receivables:

ii. 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.

iii. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. See Note 6.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets held for trading are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss in the Net gain on fair value of available- for- sale financial assets line item within the consolidated statements of profit and loss and other comprehensive income.

iv. Financial assets classified as available-for-sale (AFS financial assets)

The Entity maintains investments in equity instruments of other entities that have been designated as available-for-sale. These investments are measured at fair value at the report date and changes in fair value are recognized in other comprehensive income, net of tax. See Note 6.

Dividends on AFS equity instruments are recognized in profit or loss, in the other income line item, when the right of the Entity to receive dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

v. 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.

vi. 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 certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

vii. 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 or cash equivalents 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. Land is not depreciated.

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***

Financial assets and financial liabilities are recognized when an Entity becomes a party to the contractual provisions of the instruments.

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

(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. ***Employee benefits, benefits from termination***

Employee benefits from termination and retirement

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

l. ***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.

m. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the Entity's functional currency (foreign currencies) 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.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see 3.v related for hedging accounting policies).
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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.

n. ***Revenue recognition***

Royalties are recognized as increases in the patrimony when cash is received. Donations of goods and services are recognized in the financial statements at fair value.

*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.

o. ***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, 2015 there were no critical accounting judgments identify 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, including goodwill 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

	2015	2014
Recoverable income tax	\$ 8,412	\$ 390
Other accounts receivables	<u>7,225</u>	<u>5,930</u>
	<u>\$ 15,637</u>	<u>\$ 6,320</u>

6. Furniture and equipment

	2015	2014
<b>Gross investment at cost:</b>		
Leasehold improvements	\$ 5,331	\$ -
Furniture and equipment	40,924	211
Computers	<u>24,008</u>	<u>14,407</u>
Gross investment	<u>\$ 70,263</u>	<u>\$ 14,618</u>
<b>Accumulated depreciation:</b>		
Furniture and equipment	\$ (1,640)	\$ (8)
Computers	<u>(4,849)</u>	<u>(1,012)</u>
Accumulated depreciation	<u>\$ (6,489)</u>	<u>\$ (1,020)</u>
<b>Net investment:</b>		
Leasehold improvements	\$ 5,331	\$ -
Furniture and equipment	39,284	203
Computers	<u>19,159</u>	<u>13,395</u>
Total furniture and equipment - Net	<u>\$ 63,774</u>	<u>\$ 13,598</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 as of January 1, 2014	\$ -	\$ -	\$ -	\$ -
Additions	-	211	14,407	14,618
Depreciation	<u>-</u>	<u>(8)</u>	<u>(1,012)</u>	<u>(1,020)</u>
Balance as of December 31, 2014	-	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	<u>\$ 5,331</u>	<u>\$ 39,284</u>	<u>\$ 19,159</u>	<u>\$ 63,774</u>

Depreciation expense is presented in the operating expenses line items in the consolidated statements of activities. During the years ended December 31, 2015 and 2014. As of December 31, 2015 and 2014, 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 2015	Ownership 2014	Activity
Red de Agricultura Sostenible CR	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

	2015	2014
Taxes payable - mainly ISR	\$ 33,890	\$ 12,677
Accrued operating expenses	<u>49,458</u>	<u>35,326</u>
	<u>\$ 83,348</u>	<u>\$ 48,003</u>

## 9. Financial instruments

### a. *Categories of financial instruments:*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial.

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

	2015	2014
i. Cash	\$ 1,369,415	\$ 461,060
ii. Trade accounts payable	32,910	3,110

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	\$ 32,910	\$ -	\$ -

## 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:

	2015	2014
<b>Ingresos</b>		
Royalties	\$ 3,122,003	\$ 1,231,715
Rembolso de gastos	20,579	-
<b>Egresos</b>		
Rembolso de gastos	68,545	20,540

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

- b. Balances receivable from related parties are as follows:

	2015	2014
Rainforest Alliance y Fundación Interamericana de Investigación Tropical	\$ 553,372	\$ -
ISEAL Alliance	<u>3,423</u>	<u>-</u>
	<u>\$ 556,796</u>	<u>\$ -</u>

## 11. Operating expenses

- a. Operating expenses are as follows:

	2015	2014
Employee benefits	\$ 714,986	\$ 305,928
Rental expense	64,182	38,388
Insurance	47,962	16,443
Maintenance	9,646	1,523
Travel expenses	296,912	161,861
Depreciation and amortization	17,590	1,743
Fees	514,849	251,793
Marketing	6,291	5,893
Bank commissions	5,968	2,997
Telecommunication	10,926	1,597
Subscriptions	21,982	67
Other operating expenses	<u>22,401</u>	<u>6,594</u>
Total operating expenses	<u>\$ 1,733,694</u>	<u>\$ 794,827</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.

**13. Financial statements issuance authorization**

On July 15, 2016, 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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