



Salles Sainz

Grant Thornton

Consolidated financial statements and Independent
auditor's report

Red de Agricultura Sostenible, A.C. and Subsidiary

December 31, 2019 and 2018

Contents

	Page
Independent auditor's report	1
Consolidated statements of financial position	4
Consolidated statements of activities	5
Consolidated statements of cash flows	6
Notes to the financial statements	
1 Nature of Operations	7
2 Basis of preparation and declaration of compliance with IFRS	7
3 Changes in accounting policies	7
4 Significant accounting policies	9
5 Accounts receivable	14
6 Furniture and equipment, net	15
7 Leases	16
8 Financial assets and liabilities	16
9 Taxes and accrued expenses	17
10 Related party transactions	17
11 Operating expenses	17
12 Taxes on earnings	18
13 Events subsequent to the reporting date	18
14 Contingencies	19
15 Authorization of the financial statements	19



Independent auditor's report

To the Associates' Meeting 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 Association), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of activities, and cash flows for the year then ended, and a summary of the 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 Red de Agricultura Sostenible, A.C. and Subsidiary as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for opinion

We performed our audit in accordance with International Auditing Standards (IAS). Our responsibilities in accordance with those standards are described hereinbelow in the "Auditor's responsibilities for the audit of the financial statements" section of our report, and in the following "Exhibit". We are independent from the Association, in conformity with the International Code of Ethics for the Accounting Profession of the International Ethics Standards Board for Accountants (IESBA), together with the ethics requirements applicable to our audits of financial statements in Mexico, in accordance with the Code of Ethics of the Instituto Mexicano de Contadores Públicos. A. C., and we have met the other ethics responsibilities in conformity with those requirements and with the Codes of the IESBA and IMCP. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Another matter

The consolidated financial statements for the year ended December 31, 2018, were audited by other auditors, who expressed an unmodified opinion on those consolidated financial statements on May 24, 2019.

Management's responsibilities for the Association's governance with respect to the consolidated financial statements

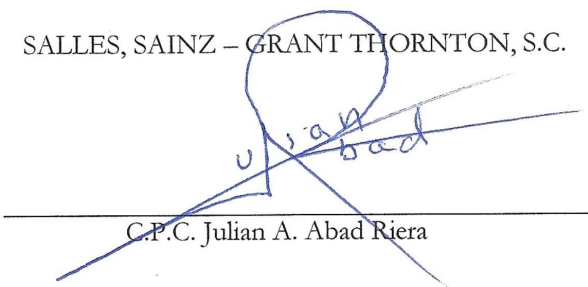
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as deemed necessary by Management to enable the preparation of financial statements that are free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

In the preparation of consolidated financial statements, Management is responsible for evaluating the Association's ability to continue as a going concern and disclosing, if applicable, those matters relative to the going concern and using the accounting postulate for a going concern, unless Management has the intent to liquidate the Association or suspend its operations, or there is no other more realistic alternative.

Auditor's Responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of Red de Agricultura Sostenible, A.C. and Subsidiary 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 it does not a guarantee that an audit conducted in accordance with IAS 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 made on the basis of these financial statements.

SALLES, SAINZ – GRANT THORNTON, S.C.



C.P.C. Julian A. Abad Riera

Mexico City, Mexico
April 30, 2020

Exhibit to the independent auditor's report

Additional description of our responsibilities for the audit of the consolidated financial statements

As part of an audit in accordance with ISAs, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identified and assessed the material diversion risks in the consolidated financial statements of Red de Agricultura Sostenible, A.C. and Subsidiary, due to fraud or error, design and apply audit procedures to respond to those risks, and obtain sufficient and appropriate audit evidence to provide a basis for our opinion. The risk of not detecting a material deviation due to fraud is higher than in the case of a material deviation due to error, since fraud can implicate collusion, falsification, deliberate omissions, intentionally erroneous manifestations, deliberate omissions, or circumvention of internal control.
- We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the internal control of the Association.
- We evaluate the adequacy of the accounting policies used and the reasonableness of accounting estimates and the corresponding information disclosed by Management.
- We conclude on the appropriateness of the use by Management of the going concern accounting postulate and, based on the audit evidence obtained, we conclude as to whether or not there is material uncertainty related to facts or conditions that can raise significant doubts about the Association's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention to the corresponding information disclosed in the consolidated financial statements in our report, or if those disclosures are not appropriate, we are required to express a modified opinion. Our findings are based on the evidence obtained so far from our audit report. However, future events or conditions can be grounds for the Association to not have the ability to continue as a going concern.
- We 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 the scope and timing of the planned audit and the significant findings of the audit to those in charge of the Management of the Association, among other matters, as well as any significant deficiencies in internal control that we identified in the course of the audit.

Consolidated statements of financial position

As of December 31, 2019 and 2018

(Amounts stated in US Dollars)

	Notes	2019	2018
Assets			
Current assets			
Cash		\$ 3,519,000	\$ 3,142,868
Accounts receivable	5	156,692	177,232
Prepaid expenses		38,510	34,018
Total current assets		3,714,202	3,354,118
Noncurrent assets			
Furniture and equipment	6	77,411	109,791
Software - Net		122	-
Guaranty deposits		2,839	2,834
Deferred tax	12	3,808	-
Total noncurrent assets		84,180	112,625
Total assets		\$ 3,798,382	\$ 3,466,743
Liabilities			
Short-term			
Trade payables		\$ 16,179	\$ 2,904
Advances from customers		-	10,000
Taxes and accrued expenses	9	61,766	69,553
Lease liability	7	31,634	27,776
Total short-term liabilities		109,579	110,233
Long-term			
Lease liability	7	23,268	54,902
Total long-term liabilities		23,268	54,902
Total liabilities		132,847	165,135
Patrimony			
Accumulated patrimony		4,120,160	3,904,506
Effect of translation		(454,625)	(602,898)
Total patrimony		3,665,535	3,301,608
Total liabilities and patrimony		\$ 3,798,382	\$ 3,466,743

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of activities

For the years ended December 31, 2019 and 2018

(Amounts stated in US Dollars)

	Notes	2019	2018
Royalties		\$ 1,018,004	\$ 506,547
Other revenue		944,751	503,585
		1,962,755	1,010,132
Operating expenses	11	1,563,784	1,476,793
Interest income		(2,420)	(2,126)
Interest expense		5,737	328
Exchange loss		168,606	27,265
		1,735,707	1,502,260
Changes in patrimony before taxes		227,048	(492,128)
Taxes on earnings	12	11,394	14,184
Patrimony at beginning of year		3,904,506	4,425,972
Patrimony at end of year		\$ 4,120,160	\$ 3,919,660
Effect of adoption of IFRS 16		-	(15,154)
Accumulated patrimony after adoption of IFRS 16		\$ 4,120,160	\$ 3,904,506

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2019 and 2018

(Amounts stated in US Dollars)

	2019	2018
Operating activities		
Equity profit (loss) before taxes	\$ 227,048	\$ (492,128)
Related parties with investing activities:		
Depreciation and amortization	34,222	13,042
Cost of retirement of fixed asset	-	248
Interest earned	(2,420)	(2,126)
Effect of adoption of IFRS 16	-	(15,154)
Related parties with financing activities:		
Interest payable	5,737	328
	264,587	(495,790)
(Increase) decrease		
Accounts receivable	20,540	515,521
Prepaid expenses, security deposits and other noncurrent assets	(4,619)	(6,269)
(Decrease) increase		
Trade payables	13,275	(6,430)
Taxes, accrued expenses and advances to customers	(17,787)	5,269
Tax paid	(15,202)	(14,183)
Lease liability	(27,776)	82,688
Net cash used in operating activities	233,018	80,806
Investing activities		
Acquisition of furniture and equipment, net	(1,842)	(69,328)
Interest earned	2,420	2,126
Net cash used in investing activities	578	(67,202)
financing activities		
Interest paid	(5,737)	(328)
Net cash in financing activities	(5,737)	(328)
Net increase in cash	227,859	13,276
Cash at beginning of year	3,142,868	3,118,135
Effect of translation due to changes in value of cash, translation of balances and cash flows of its foreign operations to the reporting currency	148,273	11,457
Cash at end of year	\$ 3,519,000	\$ 3,142,868

The accompanying notes are an integral part of these financial statements.

Notes to the consolidated financial statements

December 31, 2019 and 2018

(Amounts stated in US Dollars)

1 NATURE OF OPERATIONS

Red de Agricultura Sostenible, A.C. and Subsidiary (the Association) is a not-for-profit organization formed in Mexico on January 22, 2010, which mainly fosters sustainable agriculture, preservation of biodiversity, and improvement of rural livelihoods on and away from farms through the technical services and experience and knowledge implemented by local partners.

The Association belongs to an international group of not-for-profit organizations that work to preserve biodiversity and rural development.

2 BASIS OF PREPARATION AND DECLARATION OF COMPLIANCE WITH IFRS

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The Group adopted new requirements of its leases in 2019. See Note 3a) below. In addition, it has not made other changes retrospectively that had a material effect on the statement of financial position as at December 31, 2019.

3 CHANGES IN ACCOUNTING POLICIES

The Association has adopted new accounting pronouncements, which are effective beginning this year, and they are as follows:

a. New standards adopted as at January 1, 2019

IFRS 16 ‘Leases’

IFRS 16 ‘Leases’ substitutes IAS 17 ‘Leases’, jointly with three Interpretations (IFRIC 4 ‘Determination if an Agreement contains a Lease’, SIC 15 ‘Operating-Incentive Leases’, and SIC 27 ‘Evaluation of the Essence of Transactions that Adopt the Legal Form of a Lease’). In accordance with the requirements of IFRS 16, leases are recorded in the statement of financial position of the lessee as a right-of-use asset and a lease liability.

Due to the adoption of this new standard, the Association recognizes a right-of-use asset and the corresponding lease liability in connection with all prior operating leases, except those identified as being of low value or with a remaining lease period of less than 12 months, beginning as of the initial inception date.

The new standard has been applied by using the modified retrospective method, which recognizes the accumulated effect of the adoption of IFRS 16 in equity as an adjustment to the opening balance of the current period.

The following is a reconciliation of the items of the financial statements of IAS 17 to IFRS 16 as at January 1, 2019.

	Carrying value			Carrying value as at
	December 31,	Reclassification	Remeasurement	January 1, 2019
	2018			
<u>Assets</u>				
Furniture and equipment	\$ 42,257	\$ -	\$ 67,534	\$ 109,791
<u>Liabilities</u>				
Lease liability	-	-	(82,688)	(82,688)
<u>Patrimony</u>				
Effect of adoption IFRS 16	-	-	15154	15154
Total commitments for leases as at December 31, 2018				\$ 82,688
Lease liability before discounting				\$ 106,958
Incremental loan rate				7944
Lease liability				<u>114902</u>
Financial lease obligations				<u>(32,214)</u>
Total lease liabilities recognized under IFRS 16 as at January 1, 2019				<u>\$ 82,688</u>

b. Standards, amendments, and interpretations of existing standards that are not effective and that have not been adopted early by the Association.

As at the authorization date of these financial statements, various new standards and amendments to existing standards have been published by the IASB, these standards and modifications have not been adopted early by the Association.

Management expects all relevant pronouncements will be adopted in the Association's accounting policies for the first period that starts after the effective date of the pronouncement. The new standards, interpretations, and modifications, which have not been adopted yet, are not expected to have a material impact on the consolidated financial statements of the Association.

4 SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies are summarized below:

a. Basis of preparation

The consolidated financial statements have been prepared on an accrual basis and under a historical cost premise.

b. Basis of consolidation

The consolidated financial statements include the financial statements of the Controlling Association and its subsidiary Red de Agricultura Sostenible CR, S.A., as at December 31, 2019. The subsidiary has a reporting date of December 31.

The subsidiary is consolidated from the date on which control is transferred to the Association and they no longer consolidated as of the date on which control is lost.

All intercompany transactions and balances between the Association and its subsidiary have been eliminated in consolidation. The amounts reported in the financial statements of the subsidiary have been adjusted when it is necessary to assure consistency with the accounting policies of the Association.

c. Translation of foreign currency

Recording and presentation currency

The Controlling Association is located in Mexico and pursuant to legal requirements, it maintains the Mexican peso as its recording and presentation currency. The subsidiary, which is located in Costa Rica, maintains colons as the recording and presentation currency.

Functional currency

The Association has determined the U.S. dollar as its functional currency, since its cash flows from operating activities, as well as a representative percentage of its revenue, and various operating expenses are carried out in that currency. The consolidated financial statements are presented in U.S. Dollars, thereby generating translation effects.

Foreign currency balances and transactions

Foreign currency transactions are translated into the functional currency of the Association. In this case, the Association used the exchange rates prevailing on transaction dates. Exchange gains and losses arising from the settlement of those transactions and the valuation of monetary items at the year end exchange rate are recognized in the consolidated statement of activities.

Nonmonetary items are not translated at the exchange rate of the closing of the period, and they are measured at historical cost (translated by using exchange rates at the date of the transaction).

Transactions abroad

In the financial statements of the Association, all assets, liabilities, and operations of the subsidiary company carried out with a functional currency other than the peso (recording currency of the Association) are translated into pesos at the time of consolidation. The functional currency of the subsidiary company has remained unchanged during the reporting period.

At the time of consolidation, assets and liabilities have been translated into US dollars at the closing exchange rate of the reporting date. Revenue and expenses have been translated into the recording currency of the Association at an average exchange rate during the reporting period. Exchange differences are charged / credited to the consolidated statements of activities, and they are recognized as a translation effect in the patrimony. At the time of disposing of a foreign operation, the effects of accumulated translation recognized in the patrimony are reclassified to the consolidated statement of activities as part of the gain on loss on the disposal.

d. Cash

Cash consists of cash in banks and sight deposits, together with any other highly liquid, short-term investments that are easily marketable in known amounts of cash and are subject to an immaterial exchange risk in value.

e. Financial instruments

Recognition, initial measurement, and derecognition of financial instruments

Financial assets and liabilities are recognized when the Association forms part of the terms and conditions of a financial instrument.

Financial assets are derecognized when the contractual rights on the cash flows of the financial asset expire or when the asset and substantially all its risks and benefits are transferred. A financial liability is derecognized when it is extinguished, cancelled or it expires.

Classification and initial measurement of financial assets

Except for accounts receivable that do not have a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value, adjusted by transaction costs (if applicable).

Financial assets that are not designated and effective as hedge instruments are classified in the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVTOCI).

In the periods presented, the Association does not have financial assets classified as FVTPL or FVTOCI.

The classification is determined by:

- the business model of the Association for managing the financial asset, as well as
- the contractual characteristics of the cash flow of the financial asset.

All revenue and expenses related to financial assets are recognized in the consolidated statement of activities and presented in the cost of financing, except for impairment of accounts receivable, which is presented in general expenses.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized costs if the assets meet the following conditions (and they are not designated as FVTPL):

- are maintained within a business model whose objective is to hold financial assets and collect their contractual cash flows
- the contractual terms of financial assets give rise to cash flows that are only payments of capital and interest on the balance of outstanding capital.

After the initial recognition, financial assets are measured at amortized cost by using the effective interest method. The discount is omitted when the effect of the discount is immaterial. Cash of the Association, accounts receivable, and most other receivables fall into this category of financial instruments.

Financial asset impairment

IFRS 9 impairment requirements use more future information for recognizing expected credit losses, the 'expected credit loss model (ECL)'. This replaces the 'incurred loss model' of IAS 39. Instruments within the scope of new requirements include accounts receivable and other financial assets.

Accounts receivable and other receivables and contract assets

The Association makes use of a simplified approach for recording accounts receivable and other receivables, as well as contract assets. It further recognizes the impairment allowance as expected credit losses in the lifetime.

These are the expected deficits in contractual cash flows, considering potential nonperformance at any time throughout the life of the financial instrument. Upon calculating, the Association uses its historical experience, external indicators, and future information to calculate expected credit losses by using a provision matrix.

The Association evaluates impairment of accounts receivable on a collective basis, since they have shared credit risk characteristics that have been grouped based on days in arrears.

Classification and measurement of financial liabilities

Insofar as financial liabilities continue to be recorded in the same manner according to IFRS 9 in comparison with IAS 39, the Association's financial liabilities were not impacted by the adoption of IFRS 9. However, for purposes of integrity, the accounting policy is disclosed below.

- The financial liabilities of the Association include accounts payable and other accrued liabilities.
- Financial liabilities are initially measured at fair value, and when this applies, they are adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost by using the effective interest method.
- All charges related to interest are recognized in the consolidated statement of activities, and included in the cost of financing.

f. Prepaid Expenses

They represent advances for services that will be received in the future, and they are amortized in the period in which those services are received. Prepaid expenses correspond to insurance policies and surety bonds.

g. Furniture and equipment

Furniture and equipment are stated at their acquisition value, including any cost directly attributable for transferring assets at the location and in conditions necessary to operate in the manner foreseen by the Association's Management. Depreciation of furniture and equipment is calculated by the straight-line method, based on the estimated useful lives of those assets, net of the estimated residual value by using the following average years:

	Average years
Leasehold adaptations	3
Furniture and equipment	10
Computer equipment	5

Adaptations of leased real property are amortized during the lower of the period between the useful live thereof and the life of the lease agreement.

h. Leased assets**Accounting policy applicable beginning January 1, 2019**

For any new agreement entered into beginning or after January 1, 2019, the Association considers whether an agreement is or contains a lease. A lease is defined as 'an agreement or part of an agreement that grants the right of use of an asset (the underlying asset) during a period of time in exchange for a payment'. In order to apply this definition, the Association evaluates if the agreements complies with three key evaluations, as follows:

- the agreement has an identified asset that is identified either explicitly in the agreement or implicitly upon being identified at the time at which the asset is placed at the disposal of the Association;
- the Association is entitled to substantially obtain all the economic benefits arising from the use of the asset identified during the period of use, and its rights are considered within the defined scope in the agreement; and
- the Association is entitled to direct the use of the asset identified during the period of use. The Association evaluates whether it is entitled to direct the 'how and for what purpose' the asset is used during the period of use.

Measurement and recognition of leases as a lessee

The Association has chosen to record short-term leases and low value asset leases by using practical solutions. Instead of recognizing a right-of-use asset and a lease liability, the related payments are recognized on a straight-line as an expense during the lease term. Associated costs such as maintenance and insurance are recognized in the consolidated statement of activities as incurred.

i. Provisions, contingent liabilities and contingent assets

Provisions are recognized when current obligations arising from a past event will probably lead to an outflow of economic resources of the Association, and the amounts can be estimated reliably. The time or the amount of the outflow can still be uncertain. A current obligation arises from the presence of a legal or implied commitment, as the result of past events. Provisions do not recognize losses of future operations.

Provisions are the necessary amounts of disbursements estimated to liquidate the current obligation based on the most reliable evidence available at the date of presentation of the financial statements, including risks and uncertainties associated with the current obligation.

When there is a number of similar obligations, the likelihood that the disbursement required for the liquidation is determined considering the overall type of obligations. Provisions are discounted at their present value where the value of the money in the time is material.

All provisions are reviewed at the date of the financial statements, and they are adjusted to reflect the best current estimate. No liability is recognized in those cases in which a possible outflow of economic resources is deemed improbable as a result of a present obligation. These situations are disclosed as contingent liabilities, unless the outflow of resources is remote.

j. Taxes on earnings

The Association in Mexico is not subject to paying Income Tax (ISR-Spanish acronym); therefore, in conformity with the applicable provisions, it only pays taxes on the distributable remaining balance or items deemed as such. Consequently, Deferred Income Tax is not recognized either, in accordance with IAS 12 - Taxes on earnings, since it is a not-for-profit organization.

The consolidated information of the Association reports a tax on earnings arising from the operations of Red de Agricultura Sostenible CR, S.A. in Costa Rica (subsidiary company), which calculates its taxes on earnings individually, in accordance with the regulation in effect in that country.

k. Revenue recognition

Revenues from projects are recognized as increases in patrimony when services are realized. Donations of goods and services are recognized at their fair value in the financial statements.

Royalties

Royalties are recognized as accrued, in accordance with the substance of the agreement on which they are based (provided that it is probable that the economic benefits will flow toward the Association, and that revenues can be valued reliably). Royalties determined over a period of time are recognized through the straight-line method during the period of the agreement. Royalty agreements based on production, sales, and other measurements are recognized by reference to the underlying agreement.

l. Operating costs and expenses

General costs are recognized in the consolidated statement of activities at the time the service is used, the materials are consumed, or as incurred.

m. Costs of financing

Interest income and expenses are reported on an accrual basis, by using the effective interest method. They are presented as part of the consolidated statement of activities.

n. Significant judgment by Management upon applying accounting policies and uncertainty in estimates

Upon preparing the financial statements, Management makes various judgments, estimates, and assumptions for the recognition and measurement of assets, liabilities, revenues, and expenses.

Significant judgments by Management

At December 31, 2019 and 2018, Management considers that the judgments made in the application of the accounting policies of the Association are immaterial and, therefore, do not have any significant effect on the financial statements.

Estimate uncertainty

Information about estimates and assumptions that has the most significant effect on the recognition and measurement of assets, liabilities, revenues, and expenses is provided below. Actual results can be substantially different.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets on each reporting date, based on the expected use of each asset. Uncertainty in these estimates arises from the use that can modify the estimated useful life.

Allowances for doubtful accounts

The Association uses estimates for determining allowances on trade accounts receivable. The factors considered by the Association in estimating doubtful accounts and being clarified are mainly the risk of the financial position of the debtor, unsecured accounts, and considerable delays in collection, in accordance with established credit limits.

Royalties and other revenue

Amounts recognized as royalties and other revenue and their relative receivables reflect Management's best estimate of the gain or loss of each contract and their percentage of completion. For more particularly complex contracts, costs for completing and profitability of the contract are subject to a significant degree of uncertainty in the estimate.

5 ACCOUNTS RECEIVABLE

As of December 31, 2019 and 2018, accounts receivable are summarized as follows:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 125,111	\$ 149,568
Other receivables	6,508	7,715
Taxes recoverable, mainly value added tax (VAT)	<u>25,073</u>	<u>19,949</u>
	<u>\$ 156,692</u>	<u>\$ 177,232</u>

6 FURNITURE AND EQUIPMENT, NET

	<u>2019</u>	<u>2018</u>
Gross investment at cost:		
Leasehold adaptations	\$ 8,100	\$ 8,100
Furniture and equipment	47,230	47,230
Computer equipment	21,506	29,600
Right-of-use of offices	<u>151,952</u>	<u>151,952</u>
	228,788	236,882
Accumulated depreciation:		
Leasehold adaptations	\$ (8,100)	\$ (8,100)
Furniture and equipment	(18,702)	(14,489)
Computer equipment	(14,832)	(20,084)
Right-of-use of offices	<u>(109,743)</u>	<u>(84,418)</u>
	(151,377)	(127,091)
Net investment:		
Leasehold adaptations	\$ -	\$ -
Furniture and equipment	28,528	32,741
Computer equipment	6,674	9,516
Right-of-use of offices	<u>42,209</u>	<u>67,534</u>
	\$ 77,411	\$ 109,791

a) The reconciliation between net book values of furniture and equipment is as follows:

	<u>Leasehold adaptations</u>	<u>Furniture and equipment</u>	<u>Computer equipment</u>	<u>Right-of-use of offices</u>	<u>Total furniture and equipment</u>
Balances as at December 31, 2017	\$ 2,068	\$ 38,036	\$ 13,109	\$ -	\$ 53,213
Additions	-	-	1,794	151,952	153,746
Retirements	-	(587)	-	-	(587)
Depreciation	(2,068)	(5,047)	(5,387)	(84,418)	(96,920)
Depreciation retirements	<u>-</u>	<u>339</u>	<u>-</u>	<u>-</u>	<u>339</u>
Balances as of December 31, 2018	-	32,741	9,516	67,534	109,791
Additions	-	-	1,842	-	1,842
Retirements	-	-	-	-	-
Depreciation	-	(4,213)	(4,684)	(25,325)	(34,222)
Balances as of December 31, 2019	\$ -	\$ 28,528	\$ 6,674	\$ 42,209	\$ 77,411

7 LEASES

Lease liabilities are presented in the statement of financial position as follows:

	<u>2019</u>	<u>2018</u>
Current assets	\$ 31,634	\$ 27,776
Noncurrent assets	<u>23268</u>	<u>54902</u>
	<u>\$ 54,902</u>	<u>\$ 82,678</u>

The subsidiary company has leased corporate offices in Costa Rica. Except for short-term leases and low value underlying assets, the lease is recorded in the consolidated statement of financial position as a right-of-use asset and a lease liability. The Association classifies its right-of-use assets consistently with its furniture and equipment (see Note 6).

Lease payments not recognized as liabilities

The Association has chosen not to recognize short-term lease liabilities (leases with an expected 12 month term or less) or for leases of low value assets. Payments made for these lease agreements are recognized in the consolidated statement of activities on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and they are recognized in the consolidated statement of activities as incurred.

The expense related to the payments not included in the measurement of the lease liability is as follows:

	<u>2019</u>
Short-term leases	\$ 11,450
Low value leases	<u>3,480</u>
Total short-term liabilities	<u>\$ 14,930</u>

8 FINANCIAL ASSETS AND LIABILITIES

As at December 31, 2019 and 2018, financial assets and liabilities are summarized as shown below:

	<u>2019</u>	<u>2018</u>
Financial assets		
<i>Valued at amortized cost</i>		
Cash	\$ 3,519,000	\$ 3,142,868
Accounts receivable and other receivables	<u>131,619</u>	<u>150,283</u>
	<u>\$ 3,650,619</u>	<u>\$ 3,293,151</u>
Financial liabilities		
<i>Valued at amortized cost</i>		
Trade payables	\$ 16,179	\$ 2,904
	<u>\$ 16,179</u>	<u>\$ 2,904</u>

As at December 31, 2019 and 2018, the carrying value of financial assets and liabilities at amortized cost is considered similar to its fair value.

9 TAXES AND ACCRUED EXPENSES

As at December 31, 2019 and 2018, balances of taxes payable and accrued expenses are shown below:

	<u>2019</u>	<u>2018</u>
Taxes payable	\$ 4,857	\$ 9,970
Accrued operating expenses	<u>56,909</u>	<u>59,583</u>
	<u>\$ 61,766</u>	<u>\$ 69,553</u>

10 RELATED PARTY TRANSACTIONS

Related party transactions for the years ended December 31, 2019 and 2018, are summarized below:

	<u>2019</u>	<u>2018</u>
<u>Revenues:</u>		
Completion of Rain Forest Alliance contract	<u>\$ 1,000,000</u>	<u>\$ 506,547</u>
<u>Expenses:</u>		
Reimbursements	<u>\$ 151,907</u>	<u>\$ 104,120</u>

11 OPERATING EXPENSES

As at December 31, 2019 and 2018, operating expenses are summarized as shown below:

	<u>2019</u>	<u>2018</u>
Fees	\$ 604,945	\$ 582,094
Employee benefits	706,513	686,207
Travel expenses	86,881	37,263
Insurance	62,260	57,655
Lease	39,909	34,225
Subscriptions	18,072	5,044
Depreciation and amortization	8,920	13,042
Telecommunications	239	449
Maintenance	1,619	378
Bank fees	6,654	4,037
Other operating expenses	<u>27,772</u>	<u>56,399</u>
	<u>\$ 1,563,784</u>	<u>\$ 1,476,793</u>

12 TAXES ON EARNINGS

In conformity with the provisions set forth in Article 79, subsection XII of the Income Tax Law in Mexico, the Association is not subject to this tax. The Association may be subject to paying Income Tax only for nondeductible expenses incurred and for revenue arising from activities other than those for which it was authorized to receive donations.

As at December 31, 2019 and 2018, the consolidated information of the Association reports a tax on earnings arising from the operations of Red de Agricultura Sostenible CR, S.A. in Costa Rica, which calculates its taxes on earnings individually, in accordance with the regulation of that country. That tax amounts to \$15,202 and \$14,184, respectively.

As at December 31, 2019, the components of deferred tax assets are summarized as follows:

	2019
Excess of book over tax value of assets	\$ 12,694
Tax rate	30%
	\$ 3,808

As at December 31, 2019, credits to income amount to \$3,808, and they are generated by right-of-use assets of offices and lease liabilities. As at December 31, 2018, the Association and its subsidiary were not subject to deferred tax on earnings.

13 EVENTS SUBSEQUENT TO THE REPORTING DATE

Beginning December 31, 2019, the outbreak of COVID-19 has strongly impacted many local economies around the world. In many countries, businesses and companies are being obligated to stop their operations for long and/or undefined periods of time. The measures that have been taken to contain the spread of the virus, even prohibiting travel, quarantines, social distancing, and closings of services that are not essential have brought about significant interruptions of many businesses worldwide, thereby resulting in an economic slowdown. Stock markets in the world have also experience high volatility and significant weakening. Governments and central banks have responded with monetary and tax interventions to stabilize economic conditions.

The Association has determined that these subsequent events do not require adjustments. Accordingly, the financial position and gain or loss on its activities for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the pandemic of COVID-19, as well as the effectiveness of the responses of the government and central bank continue to be uncertain up to this time.

It is not possible to estimate the duration and seriousness of these consequences reliably, nor their impact on the financial position and activities of the Association for future periods.

14 CONTINGENCIES

The Association has entered into service contracts with affiliated companies that are related to revenue and service expenses.

In accordance with the Income Tax Law, companies that carry out related party transactions are subject to tax obligations, with respect to the determination of prices agreed upon. Such prices should be comparable to prices that would be used with or between independent parties in arm's length transactions. In the event that the tax authorities should reject the amounts determined, they could also demand taxes and accessories, fines that could be as high as 100% of the restated amount of the contributions.

In accordance with tax legislation, the authorities may exercise their inspection powers in the normal course of the Association's operations. The authority has the power to review up to the five fiscal years prior to the last income tax return filed by the Association. Management cannot foresee if those reviews could give rise to future contingencies. However, they will be disclosed and/or recognized when they are known.

15 AUTHORIZATION OF THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and their notes were approved by Geovana Rojas Flores (Administrative and Financial Manager) on April 30, 2020. Consequently, they do not reflect events that took place after that date.

The General Corporate Law and the Association's bylaws grant powers to the Board of Directors to modify the consolidated financial statements after they are issued. The financial statements will be submitted for approval at the General Associates Meeting.