Combined Financial Statements of

THE MUSTARD SEED

Year ended March 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of The Mustard Seed Society and The Mustard Seed Foundation (together herein referred to as "The Mustard Seed")

We have audited the accompanying combined financial statements of The Mustard Seed, which comprise the combined statement of financial position as at March 31, 2017, the combined statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined financial statements.

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

Basis for Qualified Opinion

In common with many not-for-profit organizations, the entity derives revenue from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the entity. Therefore, we were not able to determine whether, as at and for the years ended March 31, 2017 and March 31, 2016, any adjustments might be necessary to donation revenues and deficiency excess of revenues over expenses reported in the statements of operations, deficiency excess of revenues over expenses reported in the statements of cash flows and current assets and unrestricted net assets reported in the statements of financial position. This caused us to qualify our audit opinion on the combined financial statements as at and for the year ended March 31, 2016.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the combined financial statements present fairly, in all material respects, the financial position of the entity as at March 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

July 6, 2017

Calgary, Canada

THE MUSTARD SEED

Combined Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 5,323,563	$ 5,642,699
Accounts receivable (note 4)	159,043	290,289
Prepaid expenses	186,933	141,492
	5,669,539	6,074,480
Non-current assets:		
Restricted cash (note 5)	199,023	179,132
Capital assets (note 6)	60,377,126	61,131,362
	60,576,149	61,310,494
	$ 66,245,688	$ 67,384,974
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,704,036	$ 1,433,923
Deferred contributions (note 7)	144,184	55,884
Loans and borrowings (note 8)	337,317	326,689
Current liabilities	2,185,537	1,816,496
Non-current liabilities:		
Loans and borrowings (note 8)	4,275,248	4,612,564
Deferred capital contributions (note 9)	45,104,721	45,954,360
Replacement reserve (note 5)	199,023	179,132
	49,578,992	50,746,056
	51,764,529	52,562,552
Net assets:		
Internally restricted (note 10)	1,266,424	1,266,424
Invested in capital assets (note 11)	14,483,560	14,822,425
Unrestricted	(1,268,825)	(1,266,427)
	14,481,159	14,822,422
Commitments and contingencies (note 12)		
Subsequent events (note 16)		
	$ 66,245,688	$ 67,384,974

See accompanying notes to combined financial statements

Approved on behalf of the boards of directors:

(The Mustard Seed Society)

Ki Schuler

(The Mustard Seed Foundation)

THE MUSTARD SEED

Combined Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenues:		
Donations	$ 13,475,111	$ 14,578,038
Government funding	8,976,065	8,854,635
Rental	2,358,015	2,299,029
Investment and other income	80,461	591,826
	24,889,652	26,323,528
Expenses:		
Programs:		
Donation funded	12,264,756	10,314,755
Government supported	7,460,879	8,390,750
	19,725,635	18,705,505
Other:		
Resource development, marketing and public education	3,606,209	3,966,486
Administration	262,855	166,185
Rental properties	1,858,953	1,578,330
	5,728,017	5,711,001
	25,453,652	24,416,506
Excess (deficiency) of revenues over expenses before business and impairment loss	(564,000)	1,907,022
Business net loss (note 6)	(162,763)	(163,522)
Impairment loss (note 6)	-	(1,804,964)
Deficiency of revenue over expenses	$ (726,763)	$ (61,464)

See accompanying notes to combined financial statements

THE MUSTARD SEED

Combined Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

2017	Unrestricted	Internally restricted	Invested in capital assets	Total
Balance, beginning of year	$(1,266,427)	$ 1,266,424	$14,822,425	$14,822,422
Deficiency of revenue over expenses	(222,398)	-	(504,365)	(726,763)
Net investment in capital assets	220,000	-	(220,000)	-
Contribution of land (note 11)	-	-	385,500	385,500
Balance, end of year	$(1,268,825)	$ 1,266,424	$14,483,560	$14,481,159

2016	Unrestricted	Internally restricted	Invested in capital assets	Total
Balance, beginning of year	$ (118,177)	$ 1,266,424	$13,735,639	$14,883,886
Excess (deficiency) of revenue over expenses	493,055	–	(554,519)	(61,464)
Net investment in capital assets	(1,641,305)	–	1,641,305	–
Balance, end of year	$(1,266,427)	$ 1,266,424	$14,822,425	$14,822,422

See accompanying notes to combined financial statements

THE MUSTARD SEED

Combined Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Deficiency of revenues over expenses	$ (726,763)	$ (61,464)
Items not affecting cash flows:		
Depreciation	2,653,503	2,669,668
Deferred capital contribution	(2,149,139)	(2,115,149)
Impairment loss	-	1,804,964
	(222,399)	2,298,019
Net change in non-cash working capital balances:		
Accounts receivable	131,246	2,323,060
Other assets	–	8,015
Prepaid expenses	(45,441)	319,161
Accounts payable and accrued liabilities	270,113	335,882
Deferred revenue	88,300	(366,969)
	221,819	4,917,168
Financing activities:		
Repayment of loans	(326,688)	(1,525,014)
Repayment of non-revolving demand loan	–	(9,942,135)
Change in deferred capital contribution	400,000	115,630
	73,312	(11,351,519)
Investing activities:		
Proceeds on disposal of marketable securities	–	165,710
Purchase of capital assets	(614,267)	(142,744)
	(614,267)	22,966
(Decrease) increase in cash and cash equivalents	(319,136)	(6,411,385)
Cash and cash equivalents, beginning of year	5,642,699	12,054,084
Cash and cash equivalents, end of year	$ 5,323,563	$ 5,642,699

See accompanying notes to combined financial statements

1. **Nature of organization and basis for presentation:**

These financial statements comprise the combined operations of The Mustard Seed Society (the "Society") and The Mustard Seed Foundation (the "Foundation") (together herein referred to as "TMS"). The Foundation includes SeedWorks Inc. ("SeedWorks"), a for-profit corporation wholly-owned and consolidated by the Foundation. With the exception of SeedWorks, TMS is a Christian non-profit organization that has been caring for the needs of those experiencing poverty and homelessness since 1984. Through its ministry centers across Alberta, TMS delivers basic services, housing and employment programs to those in need and partners with the community to address the root causes of poverty.

Services provided by TMS include:

(a) Basic Services:
- Meals and food hampers;
- Clothing and personal hygiene items;
- 370 emergency shelter beds;
- Spiritual support, Bible studies and worship services; and
- Health and wellness programs – dental, chiropractic, and medical.

(b) Employment:
- Job search assistance;
- Job preparation assistance – résumé help, interview preparation;
- One-on-one job coaching and mentoring; and
- Referrals for skills training and education.

(c) Housing:
- Permanent, supportive housing;
- Housing advocacy;
- Support through resident assistants and caseworkers; and
- Community building, recreation and leisure opportunities, and social activities.

TMS accomplishes its mission through:
- Mobilizing volunteers from the church and community to care for the needs of those experiencing homelessness and poverty;
- Educating the community on the issues of poverty and homelessness through speaking presentations, information booths, tours, inner-city missions opportunities for students, etc.;
- Fundraising activities that involve individual, corporate, government and other supporters; and
- Receiving and distributing gifts-in-kind of food, clothing, personal hygiene items, gift certificates and other needed items.

1. Nature of organization (continued):

TMS strives to support change in the lives of those in need, together with the celebrated efforts of volunteers, donors and the community.

The Society and the Foundation are incorporated under the provisions of the *Societies' Act* of the Province of Alberta. The Society and the Foundation are also registered as charitable organizations authorized to issue donation receipts for income tax purposes under paragraph 149(1) of the *Income Tax Act,* and are exempt from Federal and Alberta income taxes, provided certain requirements of the *Income Tax Act* are met.

2. Basis of presentation:

These combined financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

3. Significant accounting policies:

The following is a summary of significant accounting policies followed in preparation of the combined financial statements:

(a) Basis of combination:

The TMS combined financial statements include the combined operations of the Society, the Foundation and SeedWorks. The Society and the Foundation are independent entities that exist for a common economic and community purpose. Inter-entity balances and transactions are eliminated in preparing the combined financial statements.

3. Significant accounting policies (continued):

(b) Use of estimates and judgment:

The preparation of combined financial statements in accordance with ASNPO requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenditures. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these combined financial statements, the significant judgments made by management in applying TMS's accounting policies and the key sources of estimation were the depreciation rates and useful lives of capital assets, impairment of long-lived assets, and allocation of expenditures.

(c) Revenue recognition:

TMS follows the deferral method of accounting for contributions. Revenue containing conditions as to its use (restricted contributions) is deferred until the conditions are fulfilled. Contributions, including government funding not containing restrictions as to their use, are recognized upon receipt or when receivable if the amount can be reasonably estimated and collection is assured. Rental revenue is recognized in the period during which occupancy took place.

Investment income, which includes interest, dividends, realized and unrealized gains and losses on sale of investments, are recognized on an accrual basis.

Donations and government funding restricted for the acquisition of capital assets are recognized as revenue in amounts that match the amortization expense of the related capital assets purchased with the donations and government funding.

(d) Cash and cash equivalents:

Cash and cash equivalents include deposits in banks, certificates of deposit and other short-term investments with original maturities of less than 90 days at year end.

3. Significant accounting policies (continued):

(e) Capital assets:

Capital assets are measured at cost less accumulated amortization. Land is carried at cost and not amortized. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortization is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Category	Term
Land lease	25 years
Buildings	25 years
Furniture and equipment	5 years
Vehicles	3 1/3 years
Leasehold improvements	Lease term

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. TMS has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, TMS determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount TMS expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Significant accounting policies (continued):

(g) Impairment of long lived assets:

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying amount exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over the asset's fair value.

(h) Volunteer services:

The efforts of volunteer workers are not reflected in the accompanying financial statements, inasmuch as no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to TMS.

(i) Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.

4. Accounts receivable:

Accounts receivable comprises the following:

	2017	2016
GST recoverable	$ 117,037	$ 135,724
Government funding receivable	21,471	111,639
Trade accounts receivable and other	20,535	42,926
	$ 159,043	$ 290,289

5. Restricted cash and replacement reserve:

Pursuant to operating agreements with the Government of Alberta - Municipal Affairs Housing Division, TMS is required to set aside funds annually as a replacement reserve. Use of the funds, including accumulated interest, is subject to approval by the Government of Alberta - Municipal Affairs Housing Division.

6. Capital assets:

The net carrying amount of capital assets is as follows:

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land and land lease	$ 8,840,724	$ 86,569	$ 8,754,155	$ 8,368,655
Buildings	15,029,906	5,711,333	9,318,573	8,943,290
Furniture and equipment	2,172,874	1,512,108	660,766	240,607
Vehicles	238,780	238,780	–	–
Leasehold improvements	124,783	124,783	–	–
Tower – Prepayments	48,379,443	6,735,811	41,643,632	43,578,810
	$74,786,510	$14,409,384	$60,377,126	$61,131,362

Included in capital assets at March 31, 2017 is the Mountain Aire Lodge facility ("MAL") in Sundre, Alberta. The net carrying value of MAL at March 31, 2017 is $750,000 (2016 – $750,000). The property is located on third-party owned land and was damaged in the 2013 flood. In prior year, based on the estimates of future usage by TMS and offers received on the potential sale of the property, management determined a write-down to estimated recoverable value was required. Accordingly, an impairment loss of $1,804,964 was recognized in 2016. During the current fiscal year, TMS has been actively trying to sell the property and no further impairment loss was identified by management. MAL continued to use the assets during the current fiscal year and earned revenues of $82,100 (2016 – $116,986) and incurred expenses of $244,863 (2016 – $280,504).

7. Deferred contributions:

Deferred contributions relate to externally restricted operating funding received in the current year for subsequent years' expenses. These contributions must be used for specific purposes designated by the funders.

8. Loans and borrowings:

Loans and borrowings comprise the following:

	Notes	2017	2016
Current liabilities:			
Current portion of long term loans and borrowings	(a)	337,317	326,689
Non-current liabilities:			
Bank non-revolving credit facility	(a)	4,275,248	4,612,564
		$ 4,612,565	$ 4,939,253

(a) Bank non-revolving credit facility:

The non-revolving credit facility is repayable in monthly instalments of $40,000 (2016 – $40,000) including interest at the bank's prime borrowing rate plus 0.50%. The loan facility is secured by buildings with a net book value of $41.6 million (2016 – $43.6 million). The principal amount due in the next year is $337,317 (2016 – $326,689) which is included in the current portion of long-term loans and borrowings.

(b) Available borrowing:

At March 31, 2017, TMS had $1 million (2016 – $1 million) available on a revolving demand loan facility for general operating purposes. The facility bears interest at the bank's prime rate plus 0.35%. At March 31, 2017, TMS had not drawn on this facility (2016 – $nil).

(c) Scheduled repayments:

Annual scheduled repayment of loans and borrowings, are as follows:

	Amount
2018	$ 337,317
2019	348,251
2020	359,241
2021 & thereafter	3,567,756
	$ 4,612,565

8. Loans and borrowings (continued):

(d) Bank covenants:

On the non-revolving credit facility, TMS is required to comply with certain financial covenants. TMS was in compliance with these covenants at March 31, 2017.

9. Deferred capital contributions:

Deferred capital contributions represent restricted funds received and designated to be used for capital purposes. Changes during the year comprise the following:

	2017	2016
Balance, beginning of year	$ 45,954,360	$ 47,953,879
Contributions received	400,000	115,630
Contributed assets (note 11)	899,500	–
Contributions recognized as revenue	(2,149,139)	(2,115,149)
	$ 45,104,721	$ 45,954,360

Deferred capital contributions recognized as revenue are included in donations and government funding revenue on the statement of operations.

10. Internally restricted net assets:

The TMS Boards review net assets annually and may increase or decrease the amount designated as internally restricted net assets. These funds are to be set aside as an operating contingency fund that can be drawn upon should funding be insufficient to meet expenditures.

11. Investment in capital assets:

Net assets invested in capital assets comprises the following:

	2017	2016
Capital assets	$ 60,377,126	$ 61,131,362
Amounts financed by:		
Net working capital, including cash	3,823,720	4,584,676
Loans and borrowing	(4,612,565)	(4,939,253)
Deferred capital contributions	(45,104,721)	(45,954,360)
	$ 14,483,560	$ 14,822,425

11. Investment in capital assets (continued):

Change in net assets invested in capital assets for the year comprises:

	2017	2016
Excess of revenue over expenses:		
Amortization of deferred capital contributions	$ 2,149,139	$ 2,115,149
Amortization of capital assets	(2,653,504)	(2,669,668)
	$ (504,365)	$ (554,519)

	2017	2016
Net change in investment in capital assets:		
Capital expenditures	$ 614,267	$ 142,744
Contributed land	385,500	–
Impairment Loss	–	(1,804,964)
Amounts financed by:		
Deferred capital contributions	(400,000)	(115,630)
Repayment of loans and borrowings	326,689	11,467,149
Net change in amortization	(504,365)	(554,519)
Net change in working capital, including cash	(760,956)	(8,047,994)
	$ (338,865)	$ 1,086,786

During the year, TMS received contributed land and buildings with an estimated fair value of $1,285,000 which has been included in capital assets. The estimated building value of $899,500 has been added to deferred capital contributions as at March 31, 2017 and will be amortized into revenue over the useful life of the asset. The estimated land value of $385,500 has been included directly in TMS's invested in capital assets balance.

12. Commitments and contingencies:

(a) Operating leases:

TMS leases buildings, vehicles and equipment under operating leases over terms that typically run for a period of 2 to 5 years, with options to renew the leases prior to the end of the terms.

Non-cancellable annual operating lease commitments are payable as follows:

	Amount
2018	$ 271,447
2019	261,662
2020	65,416

(b) Contingencies:

TMS is engaged in certain claims and legal actions in the ordinary course of operations. Management believes that the ultimate outcome of these actions will not have a material adverse effect on the results of operations or financial position of TMS.

13. Contributed goods and services:

TMS receives contributions of goods and services. Contributions of goods that have an independently determinable fair value, and would have otherwise been purchased, are recorded as revenue. Consumption or use of these goods is reflected as program expenses.

Amounts recognized in the statement of operations for the year are as follows:

	2017	2016
Donation revenue	$ 321,182	$ 358,958
Program expense	321,182	358,958

14. Financial risks and concentration of credit risk:

(a) Currency risk:

Currency risk is the risk associated with transacting in and holding balances that are denominated in foreign currencies. On occasion, TMS receives donations denominated in foreign currencies. These are converted to Canadian currency as soon as practicable. Aside from these transactions, TMS is not exposed to currency risk. There has been no change to currency risk exposure during the year.

14. Financial risks and concentration of credit risk (continued):

(b) Liquidity risk:

Liquidity risk is the risk that TMS will be unable to fulfill its obligations on a timely basis or at a reasonable cost. TMS manages its liquidity risk by monitoring its operating cash flow requirements, and by preparing budgets and cash flow forecasts to ensure it has sufficient funds to meet its obligations. There has been no change to liquidity risk exposure during the year.

(c) Credit risk:

Credit risk is the risk that a counter-party will default on its contractual obligations resulting in a financial loss. TMS is exposed to credit risk on its accounts receivable and cash. Management assesses on a continuous basis its accounts receivable and makes a provision for any amounts that are not collectible through an allowance for doubtful accounts. There has been no change to credit risk exposure during the year. Cash is deposited at reputable commercial banks.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. TMS is exposed to interest rate risk on interest-bearing cash deposits and loans and borrowings, including certain loans and borrowings that bear interest at rates that fluctuate with market interest rates (note 8). There has been no change to interest rate risk exposure during the year, other than that related to the additional financing in place to support the construction of a new building.

15. Financial information return for purposes of the charitable fund-raising act:

In accordance with Section 7(2) of the *Charitable Fund-raising Act* the following amounts are disclosed in addition to those disclosures reflected elsewhere in these financial statements which together comprise the Financial Information Return of TMS:

	2017	2016
Gross contributions received, exclusive of government contributions	$ 13,475,111	$ 14,578,038
Total direct expenses incurred for soliciting contributions	2,622,332	2,238,070
Remuneration to employees whose principle duties involved fundraising	797,884	778,555

16. Subsequent events:

(a) Subsequent to year end, TMS entered into an agreement with Edmonton City Church Corporation (on behalf of the Mosaic Centre). Under the terms of the agreement, TMS is obligated to maintain the name of "Mosaic Centre" for operations and programming related to the Mosaic Centre for a minimum of one year. In addition, the agreement terms require all material and physical assets, with the exception of real property assets are to be transferred to TMS along with any funds held in trust, excluding funds held for real property repairs. TMS will continue operations of the Mosaic Centre. The agreement closed on June 15, 2017.

(b) Subsequent to year end, TMS entered into an Offer to Purchase Agreement (the "Agreement"), whereby TMS acquired an apartment building containing 16 legal units for the amount of $1,500,000. The Agreement closed on June 30, 2017. Related to the purchase of the apartment building, TMS has entered into a new debt facility for $990,000 with interest at 3.14%, required monthly payments of $5,500 and a term of 5 years. Security pledged under the new facility includes a general security agreement, and a first ranking security interest over the mortgaged property.