ELEPHANT THOUGHTS
EDUCATIONAL OUTREACH

OPERATING AS "ELEPHANT THOUGHTS"

FINANCIAL STATEMENTS

JUNE 30, 2014

CONTENTS

GAVILLER & COMPANY LLP
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Elephant Thoughts Educational Outreach:

Report on the Financial Statements

We have audited the accompanying financial statements of Elephant Thoughts Educational Outreach, which comprise the balance sheet as at June 30, 2014, and the statement of operations and net assets and cash flow statement for the ten month period then ended, and a summary of significant accounting policies and other explanatory information. Comparative information is provided for the balance sheet as at August 31, 2013 and for the year ended August 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

Elephant Thoughts Educational Outreach derives contribution revenue from charitable cash donations and fundraising activities, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization. Consequently, we were unable to determine whether any adjustments to revenues, excess of revenues over expenses, assets or net assets were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Elephant Thoughts Educational Outreach as at June 30, 2014, and the results of its operations and its cash flows for the ten month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Gaviller & Company LLP
Licensed Public Accountants
Collingwood, Ontario
November 24, 2014

ELEPHANT THOUGHTS EDUCATIONAL OUTREACH

OPERATING AS "ELEPHANT THOUGHTS"

BALANCE SHEET
AS AT JUNE 30, 2014
(with comparative figures as at August 31, 2013)

	June 30 2014	August 31 2013
	$	$
Assets		
Current		
Accounts receivable	**438,418**	225,501
Prepaid expenses	**46,134**	5,068
Inventories (Note 2)	**130,118**	113,565
	614,670	344,134
Tangible capital assets (Note 5)	**1,133,895**	1,194,473
Intangibles - software (net of accumulated amortization of $2,820; 2013 - $NIL)	**31,017**	-
	1,779,582	1,538,607
Liabilities		
Current		
Bank overdraft	**179,471**	126,773
Accounts payable and accruals	**76,941**	121,848
Government remittances payable	**31,108**	17,171
Due to related parties (Note 9)	**215,000**	32,500
Deferred revenue (Note 4)	**72,638**	4,646
Current portion of obligations under capital lease	**15,367**	18,599
Current portion of long-term	**48,160**	199,419
	638,685	520,956
Long-term (Note 6)	**727,657**	528,728
Obligations under capital leases (Note 7)	**9,113**	21,380
	1,375,455	1,071,064
Deferred capital contributions (Note 3)	**185,839**	211,830
	1,561,294	1,282,894
Net assets		
Unrestricted	**218,288**	255,713
	1,779,582	1,538,607

Approved on behalf of the board:

_____________________________ Director

_____________________________ Director

See accompanying notes to the financial statements

ELEPHANT THOUGHTS EDUCATIONAL OUTREACH

OPERATING AS "ELEPHANT THOUGHTS"

STATEMENT OF OPERATIONS AND NET ASSETS
FOR THE TEN MONTHS ENDING JUNE 30, 2014
(with comparative figures for the year ended August 31, 2013)

	June 30 2014	August 31 2013
	$	$
Revenues		
Contributions and other (Notes 9 & 10)	**888,101**	1,114,472
Program fees	**1,013,223**	1,573,169
Government grants	**46,735**	48,880
Store sales	**114,270**	160,118
	2,062,329	2,896,639
Expenses		
Advertising and promotion	**25,134**	42,146
Bank charges	**9,475**	6,675
Consumables	**103,908**	228,308
Contract labour (Note 9)	**237,053**	386,003
Cost of sales - store	**67,389**	99,130
Grant	**9,206**	13,459
Insurance	**17,897**	20,527
Interest	**34,304**	36,771
International (Note 9)	**138,497**	150,883
Office	**38,300**	54,212
Other (Note 9)	**28,031**	44,632
Professional fees	**23,356**	8,558
Repairs and maintenance	**23,653**	11,136
Telephone and utilities	**11,799**	25,781
Travel	**216,798**	395,658
Vehicle	**24,269**	45,128
Wages and benefits (Note 9)	**1,012,424**	1,097,944
	2,021,493	2,666,951
Excess of revenues over expenses before undernoted items	**40,836**	229,688
Amortization of deferred capital contributions	**27,791**	26,668
Amortization of tangible capital assets (Note 5)	**(103,481)**	(120,336)
Loss on disposal of tangible capital assets	**(2,571)**	(5,645)
	(78,261)	(99,313)
(Deficiency) excess of revenues over expenses for the period	**(37,425)**	130,375
Net assets, beginning of period	**255,713**	125,338
Net assets, end of period	**218,288**	255,713

See accompanying notes to the financial statements

ELEPHANT THOUGHTS EDUCATIONAL OUTREACH

OPERATING AS "ELEPHANT THOUGHTS"

CASH FLOW STATEMENT
FOR THE TEN MONTHS ENDING JUNE 30, 2014
(with comparative figures for the year ended August 31, 2013)

	June 30 2014	August 31 2013
	$	$
Cash flows from (for):		
Operating activities		
Excess of revenues over expenses for the year	**(37,425)**	130,375
Items not involving cash		
Amortization of tangible capital assets	**103,481**	120,336
Amortization of deferred capital contributions	**(27,791)**	(26,668)
Loss on disposal of tangible capital assets	**2,571**	5,645
	40,836	229,688
Changes in		
Accounts receivable	**(212,917)**	(80,270)
Prepaid expenses	**(41,066)**	(1,207)
Inventories	**(16,552)**	20,502
Accounts payable and accruals	**(44,907)**	20,582
Government remittances payables	**13,937**	2,238
Deferred revenue	**67,992**	(212,283)
	(192,677)	(20,750)
Financing activities		
Due to related parties	**182,500**	32,500
Assumption of long-term liabilities	**237,453**	-
Repayment of long-term liabilities	**(189,783)**	(54,686)
Repayment of obligations under capital lease	**(15,499)**	(18,599)
Deferred capital contributions	**1,800**	7,565
	216,471	(33,220)
Investing activities		
Proceeds from sale of tangible capital assets	**449**	500
Purchase of tangible capital assets (Note 5)	**(43,104)**	(116,057)
Purchase of intangibles	**(33,837)**	-
	(76,492)	(115,557)
Change in cash	**(52,698)**	(169,527)
Cash, beginning of year	**(126,773)**	42,754
Cash, end of year	**(179,471)**	(126,773)
Comprised of:		
Unrestricted	**(252,109)**	(131,419)
Externally restricted (First Nation Summer Camps)	**35,317**	-
Externally restricted (Local summer camps)	**12,542**	4,646
Externally restricted (Summer festivals)	**24,779**	-
	(179,471)	(126,773)

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

Nature of the Organization

Elephant Thoughts Educational Outreach ("the Organization") is a registered charity incorporated under the Canada Corporations Act on April 26, 2002. The Organization's mandate is to help promote high standards of education worldwide despite economic or geographic barriers while supporting initiatives which propagate cultural understanding and sharing among school aged children. The Organization is exempt from income taxes pursuant to Section 149(1)(l) of the Income Tax Act.

1. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit Organizations (referred to as "ASNFPO") and are in accordance with Canadian generally accepted accounting principles (GAAP).

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

(a) Revenue recognition

The Organization derives its operating revenue from contributions, program fees, government grants and retail store sales which are accounted for under the deferral method of accounting.

Contributions include grant proposals to third parties whom are not the direct beneficiaries of the proposed programs. Unrestricted contributions are recognized as revenue when earned and collection is reasonably assured. Restricted contributions for operating expenditures are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions relating to depreciable tangible capital assets are deferred and amortized over the useful life of the depreciable tangible capital assets acquired.

Program fees include contracted services performed by the Organization and are recognized as revenue when earned and collection is reasonably assured.

Government grants are recognized as revenue when receivable and performance of any external restrictions has occurred.

(b) Collections

The Organization's collections consist of fossils and cast replicas. The collections are recorded in tangible capital assets and are not amortized as they have an unlimited useful life. Any expenditures on collections during the year were recorded as additions to tangible capital assets. There were no collection items sold during the year.

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

1. Summary of significant accounting policies (continued)

(c) Tangible capital assets

Tangible capital assets are recorded at cost. Cost includes the purchase price and other acquisition costs such as installation costs, legal fees, survey costs, freight charges, transportation insurance costs, and duties. The cost incurred to enhance the service potential of an item of tangible capital assets (betterment) is also included in the cost of an asset.

Amortization is provided to allocate the cost of assets over their estimated useful lives, beginning with half the amortization amount being taken in the first year of service. Provision is made for amortization as follows:

Building	5%	declining balance
Computers	50%	straight-line
Equipment	20%	declining balance
Signs	20%	declining balance
Trailers	20%	declining balance
Vehicles	30%	declining balance

(d) Equipment under capital lease

Equipment leases that effectively transfer all of the risks and rewards of ownership to the Organization as lessee are capitalized at the present value of the minimum lease payments under the lease with a corresponding liability for the related lease obligations. Charges to expenses are made for amortization of the equipment and interest on the lease obligations. Equipment under capital lease is included in tangible capital assets and further disclosed in Note 5.

(e) Intangibles

Intangibles consists of externally purchased software programs and are stated at cost. Amortization is provided on a declining balance basis of 20%.

(f) Inventories

The Organization's store inventory is recorded at the lower of cost and net realizable value and consumables inventory is recorded at the lower of cost and replacement cost. The store inventory is valued using the average cost method while the consumables inventory is valued using the first-in, first-out method. Store inventory consists of retail merchandise and consumables inventory consists of handouts and other materials used in the delivery of programs.

(g) Deferred capital contributions

Deferred capital contributions reported in the balance sheet include the estimated fair value of the contributed tangible capital assets at the time they were donated. Deferred capital contributions are amortized on the same basis as the donated asset and recorded as an offset to amortization expense.

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

1. Summary of significant accounting policies (continued)

(h) Contributed services

The Organization receives volunteer services from many individuals. Since these services are not normally purchased by the Organization and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

(i) Financial instruments

The Organization considers any contract that creates a financial asset, a financial liability or equity instrument as a financial instrument, except in limited items such as leases and loan commitments.

Initial recognition and measurement

A financial asset or a financial liability is recognized when the Organization becomes a party to the contractual provisions of the financial instrument.

Financial assets originated or acquired or financial liabilities issued or assumed in an arm's length transaction, are initially measured at their fair value.

Subsequent measurement

Changes in fair value of investments in equity instruments, as quoted in an active market, are recognized in operations in the period incurred. All other financial assets and financial liabilities are measured at amortized cost.

Impairment

At the end of each reporting period, the Organization assesses whether there are any indications that financial assets measured at cost or amortized cost may be impaired.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they became known. Significant estimates include the useful lives of tangible capital assets and deferred capital contributions. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

2. Inventories

Inventories consists of:

	June 30 2014	August 31 2013
	$	$
Consumables	**81,642**	64,218
Store	**48,476**	49,347
	130,118	113,565

3. Deferred capital contributions

Deferred capital contributions represent contributions restricted by the donors for the purchase of tangible capital assets. The changes in deferred capital contributions for the year are as follows:

	June 30 2014	August 31 2013
	$	$
Balance, beginning of year	**211,830**	170,396
Building capital contributions	**1,800**	64,637
Trailer contributions	**-**	3,465
Amortization of deferred capital contributions	**(27,791)**	(26,668)
Balance, end of year	**185,839**	211,830

4. Deferred revenue

Deferred revenue consists of the following:

	June 30 2014	August 31 2013
	$	$
First Nation Summer Camps	**35,317**	-
Local summer camps	**12,542**	4,646
Summer festivals	**24,779**	-
	72,638	4,646

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

5. Tangible capital assets

Tangible capital assets are comprised of:

	June 30 2014	August 31 2013
	$	$
Cost		
Land	**250,000**	250,000
Building	**638,401**	638,401
Collections	**25,200**	21,422
Computers	**27,870**	26,373
Equipment	**370,985**	333,156
Signs	**6,904**	6,904
Trailers	**18,301**	18,301
Vehicles	**252,522**	273,671
	1,590,183	1,568,228
Accumulated amortization		
Building	**65,254**	40,335
Computers	**27,123**	19,746
Equipment	**205,575**	176,276
Signs	**2,497**	1,616
Trailers	**9,677**	7,952
Vehicles	**146,162**	127,830
	456,288	373,755
	1,133,895	1,194,473

During the year, tangible capital assets were acquired at an aggregate of $43,104 (2013 - $282,053) of which $NIL (2013 - $105,459) were acquired by means of long-term liabilities, $1,800 (2013 - $60,537) were contributed and $41,304 (2013 - $116,057) were acquired with cash.

Included in vehicles are three assets under capital lease with a cost of $77,422 (2013 - $77,422) and accumulated amortization of $70,255 (2013 - $49,178). Included in amortization of tangible capital assets expense is $21,077 (2013 - $14,753) related to vehicles under capital lease.

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

6. Long-term liabilities

Long-term liabilities consists of the following:

	June 30 2014	August 31 2013
	$	$
(a) 8.00% (rate adjusted annually on anniversary date of loan) loan payable to Georgian Triangle and Dufferin County Economic Development Corporation. Blended principal and interest repayments of $1,465 monthly, due March 2014. Secured by a general security agreement over accounts receivable, inventories, equipment and building, and personal guarantees.	**-**	142,023
(b) 3.79% loan payable to TD Auto Finance. Repayable in blended bi-weekly payments of $389, due June 2019. Secured by vehicle with a net book value of $30,485 (2013 - $40,656).	**46,020**	52,977
(c) 8.88% loan payable to Chrysler Financial. Repayable in blended monthly payments of $766, due January 2014. Secured by vehicle with a net book value of $3,868 (2013- $5,158).	**-**	3,727
(d) Mortgage payable to TD Canada trust at a fixed rate of 4.51% per annum. Repayable in monthly blended payments of principal and interest of $4,694.61, due February 3, 2019 and secured by the land and building..	**687,553**	469,231
(e) 4.99% loan payable to Chrysler Financial. Repayable in blended monthly payments of $787, due May 2014. Secured by a vehicle with a net book value of $7,400 (2013 - $9,867).	**-**	6,937
(f) 3.99% loan payable to TD Auto Finance. Repayable in blended monthly payments of $772, due February 2018. Secured by vehicle with a net book value of $23,666 (2013 - $31,554).	**31,539**	38,087
(g) 4.90% loan payable to Toyota Canada. Repayable in blended monthly payments of $504, due June 2016. Secured by a vehicle with a net book value of $13,080 (2013 - $17,440).	**10,705**	15,165
	775,817	728,147
Less portion due within one year	**(48,160)**	(199,419)
	727,657	528,728

6. Long-term liabilities (continued)

Principal retirement requirements for subsequent years are:

2015	48,160
2016	49,043
2017	47,488
2018	45,513
2019	585,613

7. Obligations under capital lease

Obligations under capital lease consist of the following:

	June 30 2014	August 31 2013
	$	$
(a) 9.40% capital lease to Chrysler Financial. Repayable in blended monthly payments of $792, due August 2016. Secured by a vehicle with a net book value of $15,015 (2013 - $20,020).	**17,525**	24,535
(b) 0.00% capital lease payable to Chrysler Financial. Repayable in monthly principal payments of $221, due September 2014. Secured by a vehicle with a net book value of $1,585 (2013 - $2,113).	**665**	2,864
(c) 8.99% capital lease to Chrysler Financial. Repayable in blended monthly payments of $711, due May 2015. Secured by a vehicle with a net book value of $10,105 (2013 - $13,473).	**6,290**	12,580
	24,480	39,979
Less portion due within one year	**(15,367)**	(18,599)
	9,113	21,380

Principal retirement requirements for subsequent years are:

2015	15,367
2016	9,113

8. Financial instruments

The Organization's financial instruments consist of accounts receivable, bank overdraft, accounts payable, government remittances payable, due to related parties, long-term liabilities and obligations under capital lease.

The Organization is not exposed to market risk, currency risk, credit risk nor other price risk.

Financial risks

(a) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognized at the balance sheet date whereby a future change in interest rates will affect future cash flows or the fair value of fixed financial instruments. The Organization has several vehicle loans and leases with fixed interest rates and a mortgage with a floating rate. Management uses a mix of floating and fixed rate in order to mitigate interest rate risk.

(b) Liquidity risk

Liquidity risk is the risk that the Organization will not be able to meet its obligations associated with financial liabilities. Cash flow from operations provides a substantial portion of the Organization's cash requirements. Additional cash requirements are met with the use of the available overdraft function of the bank. The available bank overdraft and periodic loans from the board of directors and management provide flexibility in the short-term to meet operational needs.

9. Related party transactions

Included in wages and benefits is $18,400 (2013 - $23,500) paid to a director for financial consulting services. All services are performed in the normal course of operations. These transactions were recorded using the exchange value of the services performed.

During the year, a director made loans to the Organization to cover short-term cash needs. $65,000 (2013 - $32,500) was outstanding on the loan at year end. Interest on the loans is payable at prime + 1%.

During the year, another director made loans to the Organization to cover short-term cash needs. $150,000 (2013 -$NIL) was outstanding on the loan at year end. Interest on the loans is payable at prime + 1%.

During the year, $13,197 (2013 - $10,550) was recorded as a donation-in-kind from a director who performed consulting services for grant applications. The revenue is included in contributions and the expense is included in other expenses.

Included in international expenses is $96,920 (2013 - $103,452) paid to Elephant Thoughts Tanzania (ETT), a not-for-profit non-governmental Organization acting as an agent for the purpose of building and setting up operations of new schools. The Organization is currently the sole source of ETT's funding and as a result, the Organization can significantly influence their operations.

NOTES TO THE FINANCIAL STATEMENTS
AS AT JUNE 30, 2014

10. Contribution revenue

Major sources of contribution revenue were received during the year from the National Sciences and Engineering Research Council of Canada in the amount of $30,000 (2013 - $30,000) and from Tobique First Nations in the amount of $650,000 (2013 - $883,864).

11. Comparative figures

Certain comparative figures have been reclassified to conform to the 2014 financial statement presentation.