Audited Financial Statements of

CANADIAN GLOBAL AFFAIRS INSTITUTE

And Independent Auditors' Report thereon

Years ended December 31, 2019 and 2018

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Canadian Global Affairs Institute

Opinion

We have audited the financial statements of Canadian Global Affairs Institute (the Entity), which comprise:

- the statements of financial position as at December 31, 2019 and 2018
- the statements of operations for the years then ended
- the statements of changes in deficiency for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2019 and 2018, and its results of operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity has continued net losses and negative cash flows from operations, an accumulated deficiency, and current liabilities exceeding its total assets.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

May 7, 2020

CANADIAN GLOBAL AFFAIRS INSTITUTE

Statements of Financial Position

December 31, 2019 and December 31, 2018

	2019	2018
Assets		
Current Assets:		
Accounts receivable	$ 79,382	$ 62,395
Prepaids & deposits	7,100	20,120
	86,482	82,515
Property & Equipment (note 3)	2,332	-
	$ 88,814	$ 82,515
Liabilities & Deficiency		
Current Liabilities:		
Cheques issued in excess of cash on hand	$ 16,868	$ 70,987
Accounts payable and accrued liabilities (notes 2 and 4)	206,082	113,468
Revolving operating loan (note 4)	111,388	-
Deferred revenue (note 5)	90,000	100,000
	424,338	284,455
Deficiency	(335,524)	(201,940)
Going concern (note 1)		
Commitments (note 7)		
Subsequent events (notes 4 and 8)		
	$ 88,814	$ 82,515

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

______________________________ Director

CANADIAN GLOBAL AFFAIRS INSTITUTE

Statements of Operations

Years ended December 31, 2019 and 2018

		2019		2018
Revenues:				
Donations (note 2)	$	512,676	$	604,429
Events (note 2)		194,808		310,471
Grants and project funding		384,265		367,896
		1,091,749		1,282,796
Expenses:				
Project support services (notes 2, 6)		519,832		495,087
Projects		317,116		474,495
Fundraising (notes 2, 6)		242,821		217,484
General & administration (notes 2, 6)		139,523		143,635
Interest		6,041		1,076
		1,225,333		1,331,777
Deficiency of revenues over expenses	$	(133,584)	$	(48,981)

See accompanying notes to financial statements.

CANADIAN GLOBAL AFFAIRS INSTITUTE

Statements of Changes in Deficiency

Years ended December 31, 2019 and 2018

		2019		2018
Balance, beginning of year	$	(201,940)	$	(152,959)
Deficiency of revenues over expenses		(133,584)		(48,981)
Balance, end of year	$	(335,524)	$	(201,940)

See accompanying notes to financial statements.

CANADIAN GLOBAL AFFAIRS INSTITUTE

Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019		2018
Cash provided by (used in) the following activities:				
Operating:				
Deficiency of revenues over expenses	$	(133,584)	$	(48,981)
Add (deduct) items not affecting cash:				
Net change in non-cash working capital:				
Accounts receivable		(16,987)		(16,533)
Prepaids and deposits		13,020		5,076
Accounts payable		92,614		8,841
Deferred revenue		(10,000)		(17,500)
		78,647		(20,116)
Cash used in operating activities		(54,937)		(69,097)
Financing:				
Draws on revolving operating loan		111,388		-
Purchase of property and equipment		(2,332)		-
Cash provided by (used in) financing activities		109,056		-
Increase (decrease) in cash		54,119		(69,097)
Cheques issued in excess of cash on hand, beginning of year		(70,987)		(1,890)
Cheques issued in excess of cash on hand, end of year	$	(16,868)	$	(70,987)

See accompanying notes to financial statements.

Organization

The Canadian Global Affairs Institute (the "Institute") was incorporated under the Canada Corporations Act and obtained status from the Canadian Charities directorate as a registered charity under the Income Tax Act on August 3, 2001. The Institute was continued under the Canada Not-for-profit Corporations Act on August 8, 2014. The Institute is exempt from income taxes. The Institute is dedicated to enhancing Canada's role in the world by helping to stimulate awareness and debate amongst Canadians about their nation's defense and foreign policies and the instruments that serve them.

1. Significant Accounting Policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Handbook (the "Handbook").

(a) Going concern:

These financial statements have been prepared on the basis of accounting principles applicable to a going concern. However, there is material uncertainty that may cast a significant doubt about the appropriateness of the use of the going concern assumption because the Institute has experienced losses and negative cash flows from operations in the current and prior years and has an accumulated deficiency. At December 31, 2019, the Institute has a working capital deficiency of $337,856 including bank debt due on demand of $111,388 and the Institute was in violation of its minimum interest coverage ratio covenant. Subsequent to year-end, the Institute and its lender have remedied this event of default by signing an amended demand loan facility agreement that extends its terms (see note 4). It is uncertain whether the Institute will be able to meet its minimum interest coverage ratio covenant going forward.

The ability of the Institute to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon the continued support from its donors, bankers, and other stakeholders and on its ability to restore and maintain an excess of revenues over expenses in the future. Management is of the opinion that sufficient working capital will be obtained from future cash flows to meet the Institute's liabilities and commitments as they become payable and is presently in the process of scaling its operations to respond to the challenges presented by the COVID-19 pandemic. The ability to continue operations that generate an excess of revenues over expenses in the future depends upon the success of fundraising efforts.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying amount of assets, the reported revenues and expenses, and the statement of financial position classifications used to reflect these on a liquidation basis which could differ from accounting principles applicable to a going concern.

1. Significant Accounting Policies (continued):

(b) Revenue recognition:

The Institute follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related restricted purpose expenses are incurred. Contributions receivable will be recorded if the amount to be received can be reasonably estimated and the collection is reasonably assured.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

The Institute reports revenues and expenses at their gross amounts in the statement of operations when it is the principal in the transactions involved. The Institute acted as the principal in all of its 2019 and 2018 transactions and therefore, all revenues and expenses are reported at their gross amounts.

(c) Use of estimates:

The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of accounts receivable, the carrying value of property and equipment and the completeness of accrued liabilities and the allocation of expenses. These estimates are reviewed periodically and, when necessary, earnings are adjusted in the period when the adjustments become known. Actual results could differ from those estimates.

(d) 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 measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Institute 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. These costs are amortized using the effective interest rate method.

1. Significant Accounting Policies (continued):

(d) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are any indicators of impairment. If there is an indicator of impairment, the Institute 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 assets or the amount the Institute 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 impairment charge.

(e) Property and equipment:

Property and equipment are recorded at cost. Amortization is calculated using the following methods and annual rates:

Asset	Basis	Rate
Furniture & Equipment	Straight line	33%

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and exceed its fair value.

When an item of property and equipment no longer contributes to the Institute's ability to provide services, its carrying value is written down to its residual value.

(f) Allocation of expenses:

General support expenses are allocated to project expenses, fundraising expenses and general and administrative expenses. Salary and contract expenses are allocated based on budgeted hours and actual hours. Professional expenses are allocated based on historical resource utilization. General and administrative expenses are also allocated based on historical resource utilization.

(g) Changes in accounting policies:

In March 2018, the Canadian Accounting Standards Board issued "Basis for Conclusions - Accounting Standards Improvements for Not-for-Profit Organizations" resulting in the introduction of three new sections in the Canadian Accounting Standards for Not-for-Profit Organizations Part III of the Handbook as follows:

1. Significant Accounting Policies (continued):

(g) Changes in accounting policies (continued):

Section 4433, Tangible capital assets held by not-for-profit organizations, which directs organizations to apply the accounting guidance of Section 3061, Property Plant and Equipment in Part II of the Handbook. In so doing, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense. In addition, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components.

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairments of tangible assets that existed as at January 1, 2019.

Section 4434, Intangible assets held by not-for-profit organizations, which directs organizations to annually assess intangible assets, and where applicable to record an impairment expense should the net carrying value be higher than the asset’s fair value or replacement cost.

This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairment of intangible assets that existed as at January 1, 2019.

Section 4441, Collections held by not-for-profit organizations, which defines a collection and directs organizations to record such assets on the statement of financial position at either cost or nominal value. It is anticipated that all collections will be accounted for using the same method, with the exception of organizations that opt to account for collections at cost, whereby the cost for certain collections either held or contributed cannot be determined. Such items are to be accounted for at a nominal value. In addition, collections are written down when there is evidence that the net carrying amount exceeds fair value.

Organizations are permitted to retrospectively capitalize collections at their cost or fair value at the date of acquisition, or fair value or replacement cost as at January 1, 2019, based on the most readily determinable value. In addition, an adjustment to opening net assets is permitted to recognize any partial impairment of the value of collections that existed as at January 1, 2019.

The amendments are effective for financial statements for fiscal years beginning on or after January 1, 2019.

The implementation of these changes had no impact on the financial statements.

2. Related party transactions:

During the year ended December 31, 2019, the Institute paid administrative and consulting fees of $463,156 (2018 - $464,871) to companies owned by management, a company controlled by a Member and a company of which a Member is a shareholder. At the year ended December 31, 2019, the Institute had payables in the amount of $66,409 (2018 - $45,879) owing to these related parties.

During the year ended December 31, 2019, the Institute recognized donations in the amount of $417,707 (2018 - $496,617) and events revenue in the amount of $8,000 (2018 - $33,500) from Directors, Members, companies controlled by Members, and a company in which a Director was a member of the executive team.

All related party transactions are provided in the normal course of business and recorded at the exchange amount being the amount agreed to by the parties.

3. Property & equipment:

December 31, 2019		Cost		Accumulated amortization		Net book value
Furniture and equipment	$	2,332	$	-	$	2,332
Total	$	2,332	$	-	$	2,332

December 31, 2018		Cost		Accumulated amortization		Net book value
Furniture and equipment	$	-	$	-	$	-
Total	$	-	$	-	$	-

4. Revolving operating loan:

During the year, the Institute negotiated a revolving operating loan facility (the "Loan Facility") with a Canadian bank with a borrowing limit of $150,000 (2018 – $nil), as well as a corporate Mastercard facility with a borrowing limit of $50,000 (2018 – $nil). The Loan Facility bears interest at the bank's prime rate plus 1.5% per annum and is payable in full on demand by the bank. The balances outstanding on the Loan Facility and the corporate Mastercard facility at December 31, 2019 were $111,388 (2018 – $nil) and $22,737 (2018 – $nil), respectively. The Loan Facility is secured by a general security agreement over all present and after-acquired personal property and the Institute is required to comply with positive, negative and a financial covenant that requires the Institute to maintain an Interest Coverage ratio of at least 3.00:1. The financial covenant was not met at December 31, 2019. Subsequent to year-end, the Institute renegotiated its Loan Facility with the bank to remedy this covenant breach.

5. Deferred revenue:

Deferred revenue relates to prepayment of speakers series' ticket revenue and sponsorship revenue for dinners and events taking place in the following year.

6. Allocated expenses:

December 31, 2019	Salary and contract expense	Professional expense	Other general support expense	Total
Project expenses	$ 368,263	$ 39,804	$ 111,765	$ 519,832
Fundraising	167,087	23,844	51,891	242,821
General & administrative	92,577	16,221	30,724	139,523
Total	$ 627,927	$ 79,869	$ 194,380	$ 902,176

December 31, 2018	Salary and contract expense	Professional expense	Other general support expense	Total
Project expenses	$ 380,207	$ 24,077	$ 90,803	$ 495,087
Fundraising	153,380	21,145	42,959	217,485
General & administrative	102,467	16,422	24,746	143,635
Total	$ 636,054	$ 61,644	$ 158,508	$ 856,206

7. Commitments:

The Institute rents premises under a long-term operating lease that expires on January 31, 2021. The annual rent is $36,561 and the future minimum lease payments to the expiry date are $39,608.

8. Subsequent Events:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization and has had a significant financial, market and social dislocating impact.

The COVID-19 outbreak presents uncertainty over future cash flows and revenues, may cause significant changes to the Institute's assets or liabilities and may have a significant impact on future operations. An estimate of the financial effect is not practicable at this time.

9. Financial risk and concentration of risk:

(a) Credit risk:

The Institute is exposed to credit risk on its accounts receivable from its clients and its cash held at banks. The Institute assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The Institute only deals with highly reputable financial institutions.

(b) Interest rate risk:

The Institute is exposed to interest rate risk as its revolving operating loan bears interest at a variable rate.

(c) Liquidity risk:

Liquidity risk is the risk of being unable to meet cash requirements or to fund obligations on a timely basis or at a reasonable cost (note 1(a)). The Institute prepares annual budgets to ensure its obligations are met.