

OCEANA BRASIL

**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED ON DECEMBER 31ST, 2018**

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OCEANA BRASIL

**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS FOR THE
YEAR ENDED ON DECEMBER 31ST, 2018**

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**INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS
PAR 19/004**

To the Management of
OCEANA BRASIL
Brasília – DF

Opinion

We have audited the financial statements of **OCEANA BRASIL** ("Association"), which comprise the balance sheet as at December 31st, 2018, and the statement of income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at December 31st, 2018, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Basis for Opinion

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the Ethics Standards for Accountants' Code together with the ethical requirements that are relevant to our audit of the financial statements in Brazil, 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.

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 accounting practices adopted in Brazil, applicable to non-profit organizations (ITG 2002), 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's 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 auditor's 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 Brazilian and international standards on auditing 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 these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, 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 Association'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 Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Association 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.

We 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.

Brasília, January 18th, 2019.



auditores independentes



Cristina Braga de Oliveira
Accountant – CRCMG 079371/O-6
baker tilly auditores independentes
CRC MG - 005.455/O-1



TABLE 1

BALANCE SHEET ON DECEMBER 31*
(In thousands of Reals)

| Assets | Note | 2018 | 2017 | Liabilities | Notas | 2018 | 2017 |
|---------------------------------|-------------|--------------|--------------|--|--------------|--------------|--------------|
| Current | | | | Current | | | |
| Cash and cash equivalents | 5 | 1.576 | 890 | Accounts payable | 7 | - | 78 |
| Advances to third parties | | 46 | 79 | Labor liabilities | 8 | 259 | 237 |
| Advances to suppliers | | 1 | - | Other Current Liabilities | 9 | 1.324 | 601 |
| Advances to employees | | 48 | - | | | | |
| Prepaid expenses | | - | 1 | | | | |
| Total current assets | | 1.671 | 970 | Total current liabilities | | 1.583 | 916 |
| Non-current assets | | | | Net assets | 10 | | |
| Property and equipments | 6 | 511 | 593 | Unrestricted | | 649 | 739 |
| Intangible | 6 | 7 | 2 | Deficit revenues over expenditures | | (43) | (90) |
| Total non-current assets | | 518 | 595 | Total net assets | | 606 | 649 |
| Total of assets | | 2.189 | 1.565 | Total of liabilities and net assets | | 2.189 | 1.565 |

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

TABLE 2

**STATEMENTS OF INCOME
FOR THE YEAR ENDED ON DECEMBER 31st
(In thousands of Reals)**

| | <u>Notas</u> | <u>2018</u> | <u>2017</u> |
|--|--------------|----------------|----------------|
| Total revenues | | 7.370 | 6.175 |
| Contributions - Oceana Inc. (Donations) | | 7.370 | 6.175 |
| Total expenses | | (7.413) | (6.265) |
| Salaries and Benefits | 12 | (4.070) | (3.271) |
| Administrative expenses | 12 | (463) | (371) |
| Financial expenses | | (28) | (34) |
| Other operational expenses | 12 | (2.727) | (2.413) |
| Non operational expenses | 12 | (125) | (176) |
| Excess or deficit of revenues over expenditures | | (43) | (90) |



TABLE 3

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED ON DECEMBER 31, 2018 AND 2017
(In thousands of Reals)**

| | Unrestricted | Excess or deficit of revenues over expenditures | Total |
|---|--------------|---|------------|
| Balances at the beginning of the period on January 1, 2017 | 739 | - | 739 |
| Deficit expenditures over revenues | - | (90) | (90) |
| Balances on December 31, 2017 | 739 | (90) | 649 |
| Transfer to unrestricted resources | (90) | 90 | - |
| Deficit expenditures over revenues | - | (43) | (43) |
| Balances on December 31, 2018 | 649 | (43) | 606 |

TABLE 4

**STATEMENT OF CASH FLOWS - INDIRECT METHOD
FOR THE YEAR ENDED ON DECEMBER 31st
(In thousands of Reais)**

| | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| I - Cash flows from operating activities | | |
| Excess of revenues over expenditures | (43) | (90) |
| (+/-) Add (deduct) items not involving cash: | | |
| (+) Depreciation | 101 | 99 |
| Decrease/(Increase) in the assets | | |
| Advances to third parties, suppliers and employees | (16) | (43) |
| Prepaid expenses | 1 | 6 |
| (Decrease)/Increase in the liabilities | | |
| Accounts payable | (78) | 35 |
| Labor liabilities | 22 | 45 |
| Withholding taxes | - | (7) |
| Anticipated revenues | 723 | 358 |
| Cash (used in) provided by operating activities | <u>710</u> | <u>403</u> |
| II - Cash flows from investing activities | | |
| Purchase of property, equipments and intangible assets | (24) | (2) |
| Net cash used in investing activities | <u>(24)</u> | <u>(2)</u> |
| Net increase in cash and cash equivalents | <u>686</u> | <u>401</u> |
| Cash and cash equivalents | | |
| At start of the year | 890 | 489 |
| At end of the year | 1:576 | 890 |
| In(de)crease in cash and cash equivalents | <u>686</u> | <u>401</u> |

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reais, unless otherwise indicated)

1 Operating Context

Oceana Brasil is a non-profit national association of private law nature that acts side by side with the government, society, the productive sector and scientists, aiming to ensure environmental, social and economic benefits generated by marine fishing in Brazil.

The Association has as social purpose:

- (a) The environment's defense, preservation and conservation, especially the oceans;
- (b) The protection of life in the seas through marine conservation;
- (c) The economic and social development promotion, especially of coastal communities; and;
- (d) The development of scientific or technological researches related to the items (a), (b) and (c) above.

Oceana Brasil, founded in 2014, is part of all Oceana organizations, including Oceana, Inc., and its affiliates, as well as Oceana Canada, an independent charity. Together, the Oceana International organizations form the largest international advocacy group dedicated solely to ocean conservation.

Oceana has offices in North, Central and South America, in Asia and in Europe. All the countries where it operates, together, are responsible for 40% of the marine fish production in the world. Oceana seeks to protect biodiversity and increases the wealth of our oceans through changes in the public policies of the countries who have the biggest marine resources of the World.

2 Presentation of financial statements

Oceana's Management is responsible for preparing the financial statements, which were prepared and are being presented in accordance with accounting practices adopted in Brazil, including the Brazilian Accounting Standards, especially ITG 2002 – Nonprofit Organizations.

On December 31, 2018, the Association had no active and passive operations resulting from long-term operations that could generate adjustment to present value.

3 Description of main accounting practices adopted

- (a) Determination of income

The revenues from donations received are allocated to the income in the same proportion of the incurred expenses, linked to the campaigns managed by the Association, plus spending with fixed assets acquisitions. The costs and expenses incurred represent, basically, the allocation of human and materials resources in the execution of campaigns and are allocated to the income in accordance to the accrual accounting basis.

The financial revenues are recorded in the income based in the accrual accounting basis.

As a non-profit entity, Oceana Brasil enjoys the exemption of income tax and the social contribution levied on the surplus of revenue over expense.



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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reals, unless otherwise indicated)

(b) Current and non-current assets

Are stated by current values, including incomes adjusted for temporary variations incurred by foreign currency exchange rate fluctuations.

(c) Fixed and intangible assets

The items of fixed and intangible assets are measured at historical cost of acquisition, less accumulated depreciation or amortization and decrease in losses of recoverable amounts (impairment) accrued. Depreciation is calculated using the straight-line method at the annual rates mentioned in Note nº 6, that are revised, if necessary, annually or when there is an indication of significant change.

(d) Current and non-current liabilities

The obligations are stated by known or estimated amounts including, when applicable, of the related charges.

(e) Reserves

Provisions are recognized when: (i) the Association has a present legal or constructive obligation as a result of a past event; (ii) it is probable that an outflow of economic benefits will be required to settle the obligation; (iii) and the amount can be estimated reliably.

Provisions are measured by the present value of the expenditures expected to be required to settle the obligation, with the use of a pre-tax rate that reflects current market assessments of the value of money over time and the specific risks of the obligation. The increase in the provision due to passage of time is recognized as financial expense.

(f) PIS and COFINS

Oceana Brasil is exempt from payment of the Contribution to Social Security Financing (COFINS, in the Brazilian abbreviation). However, Oceana Brasil, as a non-profit entity, that has employees, as defined by labor legislation, is required to pay PIS with a fixed quota of 1% incident on the monthly payroll.

(g) Net assets

Represented by unrestricted resources of the Association and by the excess of revenues over expenditures annual, as appropriate.

(h) Present value adjustment

At December 31st, 2018, Oceana Brasil had no assets and liabilities of long-term that would require adjustment to present value of their cash flows.



EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reals, unless otherwise indicated)

4 Financial Instruments

(a) Classification and valuation of financial instruments

The Association maintains operations with non-derivative financial instruments. These instruments' management is done through operational strategies and internal controls; aimed at assuring liquidity, profitability and security.

Non-derivative financial instruments include cash and cash equivalents, accounts receivable and other receivables, loans and financing, as well as accounts payable and other debts. The classification depends on the purpose for which the financial instruments were acquired.

(b) Derivatives

Oceana Brasil did not perform speculative investments, in derivatives or any other risky assets, during the year ended on December 31st, 2018.

(c) New accounting standards, not yet in force.

(d) Effective January 1, 2019, CPC 06 (R2) - Leasing Operations (Correlation with IFRS 16) takes effect. Assets and liabilities arising from leasing will initially be measured based on present value and recorded as assets of use rights and liabilities as lease obligations. Leased assets will be depreciated by the straight-line method, considering the term of the lease or the useful life of the asset, being the choice for the shortest period.

5 Cash and cash equivalents

The balance of cash and cash equivalents refers, exclusively, to the funds held in current accounts by Oceana Brasil.

| | <u>2018</u> | <u>2017</u> |
|-------|-------------|-------------|
| Banks | 1.576 | 890 |

Management adopts a conservative policy of cash management, applying available resources in short-term redemption of investment funds in first-rate Brazilian financial institutions, when allowed by donors. The financial incomes from these investments are reinvested in the Association.

6 Property and equipments and intangible assets

| | <u>2018</u> | | | <u>2017</u> | Annual depreciation rates |
|-------------------------|-------------|-----------------------------------|------------|-------------|----------------------------------|
| | Cost | Accumulated deprec./amort. | Net | | |
| Machinery and equipment | 55 | (16) | 39 | 42 | 10% |
| IT equipment | 144 | (86) | 58 | 70 | 20% |
| Furniture | 174 | (63) | 111 | 126 | 10% |
| Software | 11 | (4) | 7 | 2 | 20% |
| Household Improvements | 492 | (189) | 303 | 353 | 10% |
| Total | 876 | (358) | 518 | 593 | |



EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reals, unless otherwise indicated)

7 Accounts payable

Refers to the obligation that the Association has with the financial settlement of performed expenditures, whose values have been recognized in income, with the balance composed as presented in the following table:

| Description | 2018 | 2017 |
|-----------------------|-------------|-------------|
| Suppliers of services | - | 78 |

8 Labor liabilities and withholding taxes

Refers to provision for payment arising from obligations relating to human resources and employment installment of social security contributions, whose values have been recognized in income, with the balance composed as presented in the following table:

| Description | 2018 | 2017 |
|---|-------------|-------------|
| Provisions for vacation | 187 | 175 |
| Provisions for social charges on vacation | 62 | 60 |
| Vacation pay | 8 | - |
| PIS | 2 | 2 |
| Labor liabilities | 259 | 237 |

9 Anticipated revenues

Refers to the resources anticipated by the donors under the campaigns managed by Oceana Brasil and that will be used in the subsequent periods, as shown in the table below:

| Donor | 2018 | 2017 |
|--------------|-------------|-------------|
| Oceana, Inc. | 1.324 | 601 |

10 Net assets

(a) Unrestricted resources

Unrestricted resources of the Association are composed of the contributions of its associated members, financial revenue, donations, grants and legacies, as foreseen in the Social Statute.

(b) Excess of revenues over expenditures of the year

Refers only to the excess of revenues over expenditures of the current year. After approved by management, these values are incorporated to the social equity of the Association to be reinvested in social actions, as foreseen in the statute, when applicable.



EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reals, unless otherwise indicated)

11 Insurance coverage (Non-audited)

The Association adopts the policy of hiring travel insurance coverage to its employees and consultants in amounts considered sufficient to cover possible losses, considering the nature of their activities.

There is coverage for operational risks in the amount of R\$ 806 thousand and insurance for operations and commercial establishments of Liability of the Employer in the amounts of R\$ 3,250 thousand.

12 Expenses and costs

a) Salaries and benefits

| Description | 2018 | 2017 |
|---|--------------|--------------|
| Employees' salaries (a) | 1.791 | 1.815 |
| Employees' benefits and social charges (a) | 1.268 | 1053 |
| Provisions for 13 th salary and vacation | 1.011 | 403 |
| Total | 4.070 | 3.271 |

(a) The salaries, social charges and benefits are related to the staff hired to work in the campaigns and are allocated as expenses by the accrual basis.

b) Administrative expenses

| Description | 2018 | 2017 |
|--|-------------|-------------|
| Materials applied in administrative activities | 84 | 42 |
| Services provided by legal entities | 150 | 100 |
| Rent and utilities (real state expenses) | 222 | 222 |
| Other administrative expenses | 7 | 7 |
| Total | 463 | 371 |

c) Other operational expenses

| Description | 2018 | 2017 |
|---|--------------|--------------|
| Travels and lodging | 305 | 254 |
| Events and workshops | 208 | 278 |
| Communications | 512 | 843 |
| Advisory and services provided by third parties | 1.702 | 1.038 |
| Total | 2.727 | 2.413 |



EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF DECEMBER 31ST, 2018

(In thousands of Reais, unless otherwise indicated)

d) Non-operational expenses

| Descrição | 2018 | 2017 |
|-------------------------------|-------------|-------------|
| Support and sponsorships | - | 20 |
| Donations | 24 | 57 |
| Depreciation and amortization | 101 | 99 |
| Total | 125 | 176 |



