Translation of financial statements originally issued in Spanish – See Note 17 to the financial statements

Oceana, Inc. (Peru Representative Branch)

Financial statements for the years 2018 and 2017, together with the Report of Independent Auditors

Building a better working world

Translation of financial statements originally issued in Spanish – See Note 17 to the financial statements

Oceana, Inc. (Peru Representative Branch)

Financial Statements for the years 2018 and 2017 (unaudited), together with the Report of Independent Auditors

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Report of Independent Auditors

To the Executive Management of Oceana, Inc. (Peru Representative Branch):

We have audited the accompanying financial statements of Oceana, Inc. (a foreign institution of international technical cooperation non-profit), which comprise the statement of assets, liabilities and institutional equity as of December 31, 2018, and the related statements of income and expenses, statements of changes in the institutional equity and statements of cash flows for the year ended December 31, 2018, and a summary of significant accounting policies and explanatory notes. The financial statements for the year ended as of December 31, 2017, that are presented for comparative purposes, have not been audited.

Executive Director's responsibility for the financial statements

The Executive Directors of the institution is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practices in Peru (Peruvian GAAP), and for such internal control as Executive Directors determined is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Auditing Standards approved in Peru by the Board of Deans of the Peruvian Charter of Accountants. 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 institution preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Executive Directors, as well as evaluating the overall presentation of the financial statements.

Report of Independent Auditors (continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oceana, Inc. (Peru Representative Branch) as of December 31, 2018, and their financial performance and cash flows for the year ended December 31, 2018, in accordance with the Accounting Practices described in note 2.

Lima, Peru,
March 1, 2019

Paredes, Burga & Asociados

Countersigned by:

K Villanueva

Katherine Villanueva
C.P.C.C. Register N° 36892

Translation of financial statements originally issued in Spanish – See Note 17 to the financial statements

Oceana, Inc. (Peru Representative Branch)

Statement of assets, liabilities and institutional equity

As of December 31, 2018 and 2017 (unaudited)

	Note	2018 S/	2017 S/ (unaudited)
Assets			
Current assets			
Cash	5	219,203	309,964
Other accounts receivable		17,487	16,838
Prepaid expenses		-	8,020
Total current assets		236,690	334,822
Buildings, furniture and equipment, net	6	393,290	429,287
		393,290	429,287
Total assets		629,980	764,109
Liabilities and institutional equity			
Current liabilities			
Trade accounts payable	7	41,074	1,399
Other accounts payable	8	130,441	82,216
Total current liabilities		171,515	83,615
Total liabilities		171,515	83,615
Institutional equity	9		
Additional capital		16,366,940	11,376,836
Retained earnings		(15,908,475)	(10,696,342)
Total institutional equity		458,465	680,494
Total liabilities and institutional equity		629,980	764,109

Oceana, Inc. (Peru Representative Branch)

Statement of income and expenses

For the years ended December 31, 2018 and 2017 (unaudited)

	Note	2018 S/	2017 S/ (Unaudited)
Expenses			
Labor expenses	11	(2,774,881)	(2,743,756)
Services provided by third parties	12	(2,027,180)	(2,160,635)
Net loss from currency exchange difference	4	(186,919)	(19,696)
Other charges	13	(170,304)	(110,306)
Depreciation	6	(50,938)	(46,860)
Taxes		(1,911)	(1,621)
Operational loss		(5,212,133)	(5,082,874)
Deficit of the year		(5,212,133)	(5,082,874)

Translation of financial statements originally issued in Spanish – See Note 17 to the financial statements

Oceana, Inc. (Peru Representative Branch)

Statement of changes in institutional equity

For the years ended December 31, 2018 and 2017 (unaudited)

	Additional capital S/	Retained earnings S/	Total S/
Balance as of January 1, 2017 (unaudited)	6,230,835	(5,613,468)	617,367
Transfers from its parent, note 9	5,146,001	-	5,146,001
Deficit of the year	-	(5,082,874)	(5,082,874)
Balance as of December 31, 2017 (unaudited)	11,376,836	(10,696,342)	680,494
Transfers from its parent, note 9	4,990,104	-	4,990,104
Deficit of the year	-	(5,212,133)	(5,212,133)
Balance as of December 31, 2018	16,366,940	(15,908,475)	458,465

Translation of financial statements originally issued in Spanish – See Note 17 to the financial statements

Oceana, Inc. (Peru Representative Branch)

Statement of cash flow

For the years ended December 31, 2018 and 2017 (unaudited)

	Note	2018 S/	2017 S/ (Unaudited)
Operating activities			
Payment of salaries and social benefits		(2,774,881)	(2,743,756)
Payment of consulting	12(a)	(1,000,760)	(930,642)
Payment of transportation and travel expenses		(469,420)	(393,148)
Payment of advertising and basic services		(251,898)	(514,587)
Rentals		(236,044)	(232,699)
Other payments related to the activity		(332,921)	(230,578)
Cash used by operating activities		(5,065,924)	(5,045,410)
Investing activities			
Acquisition of fixed assets	6(a)	(14,941)	(19,709)
Cash used in investment activities		(14,941)	(19,709)
Financing activities			
Cash transfers from its parent	9	4,990,104	5,146,001
Cash provided by financial activities		4,990,104	5,146,001
Increase (decrease) in cash		(90,761)	80,882
Cash as of beginning of year		309,964	229,082
Cash as of the end of the year	5	219,203	309,964

1. Economic activity -

(a) Identification -

Oceana, Inc. (Peru Representative Branch, the "institution"), is a foreign institution of international technical cooperation non-profit that was founded in Peru on April 01, 2015, with the contribution of remittances transferred from its parent company, Oceana, Inc, a 501(c)(3) located in Washington, DC, in the United States of America. Responsibility for the fulfilment of the purposes of the institution is the address, whose powers are regulated by the legal framework described in the civil code and the regulations of the Peruvian Agency for International Cooperation (in later "PAIC").

(b) Activities of the institution –

Oceana, Inc., parent to the institution was founded in 2001. It is the largest international organization focused exclusively on the conservation of the oceans. Its collaborators around the world work to win strategic campaigns, aimed at achieving results that help recover the health and biodiversity of the oceans.

Within its main activities we can distinguish the following:

- The preservation of marine species at risk, such as sharks and their illegal fishing, which does not take into account the minimum size of the fishery and the prohibition periods, considering also that there is little scientific information on their conservation status.
- Promote campaigns that fight the substitution of species, which implies selling several species under the same common name, supplying high demand fish with cheaper ones, offering species with popular names or under a mixture of names.
- Promote campaigns that combat the consumption of plastic bags, bottles, sorbets, technopor, among others, which have a serious impact on the pollution of the Peruvian sea.
- Conduct studies to contribute to the delimitation of Marine Protected Areas (MPAs), which allow to conserve places that are representative of the country's natural heritage, as well as its marine resources.

(c) Financial statements approval -

The financial statements of the institution as of December 31, 2018, will be approved by Executive Management in the first quarter of 2019. The financial statements as of December 31, 2017 (unaudited) were approved by Executive Management on February 19, 2018.

2. Significant accounting practices and policies-

The most important accounting principles and practices that have been applied in the recording of operations and the preparation of the financial statements are the following:

The values of the financial statements are presented in historical soles on the dates of the transactions.

(a) Basis of presentation -

The financial statements of the institution have been prepared and presented in accordance with the Generally Accepted Accounting Principles (Peruvian GAAP) and with the accounting practices described in the following paragraphs.

(b) Significant judgments, estimates and assumptions -

The preparation of financial statements requires Executive Management to use judgments, estimates and assumptions to determine the reported amounts of assets and liabilities, the exposure of contingent assets and liabilities at the date of the financial statements, as well as reported income and expenses for the years ended December 31, 2018, and 2017 (unaudited).

In the opinion of Executive Management, these estimates were made on the basis of their best knowledge of the relevant facts and circumstances at the date of preparation of the financial statements; however, the final results may differ from the estimates included in the financial statements. The Board does not expect variations, if any, to have a material effect on the financial statements.

(c) Funds received -

The funds received from Oceana, Inc. were fully recognized at the time of being received as part of the additional capital.

(d) Transactions in foreign currency -

Functional currency or presentation –

The items included in the financial statements of the institution are expressed in the currency of the primary economic environment where the entity operates, that is, its functional currency. Executive Management of the institution presents its financial statements in soles, because it reflects the nature of the economic events carried out by the institution.

Transactions and balances in foreign currency -

Transactions in foreign currency are considered to be those made in a currency other than the functional currency. Transactions in foreign currency are initially recorded in the functional currency using the exchange rates in effect on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are subsequently adjusted to the functional currency using the exchange rate in effect at the settlement date of the operations or the statement of assets and liabilities, recognizing the gains or losses that are generated in the statement of financial position, income and expenses.

Non-monetary assets and liabilities in foreign currency are recorded in the functional currency at the exchange rate prevailing at the date of the transaction.

During 2018, the institution recorded a net loss exchange difference of S/186,919 (S/19,696 as of December 31, 2017 (unaudited)).

(e) Cash -

The cash presented in the statement of assets and liabilities includes cash balances and current accounts, which are included in the statement of cash flows.

(f) Account receivables -

The accounts receivable due to the institution correspond to other accounts receivable. These accounts receivable are held at the value of each transaction, net of an estimate for doubtful collection, when applicable.

Accounts receivable are non-derivative financial assets whose charges are fixed or determinable and which are not traded in an active market, for which the institution does not intend to sell them immediately or in the near future and which have no recovery risks other than its credit deterioration.

The provision for doubtful accounts is established if there is objective evidence that the institution will not be able to recover the amounts of the debts in accordance with the original terms. To this end, the Executive Management periodically reviews the age of accounts receivable and the collection statistics maintained by the institution. The provision for doubtful accounts is recorded with a charge to income for the year in which the need is determined.

(g) Buildings, furniture and equipment -

The buildings, furniture and equipment are presented at acquisition cost. The buildings, furniture and equipment are depreciated using the straight-line method over their estimated useful life. When assets are sold or withdrawn, their cost and depreciation is eliminated, and any gain or loss that results from their disposal is included in the statement of income and expenses. Maintenance and minor repairs are charged to expenses when incurred.

Depreciation is calculated following the straight-line method, using the following estimated useful lives:

	Years
Buildings and facilities	33
Furniture and fixtures	10
Computer equipment	4

Gains or losses arising from the sale or retirement of assets are recognized when the asset is sold or abandoned.

(h) Recognition of provisions and contingencies-

Provisions -

A provision is recognized only when the institution has some present obligation (legal or implicit) as a consequence of a past event, it is probable that it is required to settle the obligation, and an estimate of the amount of the obligation can be made. The expense related to a provision is shown in the statement of income and expenses, net of any disbursement, in the period in which the provision is established.

Contingencies -

Contingent liabilities are only disclosed in a note to the financial statements and when cash outflows are possible.

Contingent assets are not recognized in the financial statements and are only disclosed when their income is probable.

(i) Recognition of expenses -

Expenses associated with the execution of research projects and campaigns, as well as other operating expenses and miscellaneous provisions are recognized in accordance with the accrual basis of accounting, and are recorded in the periods to which they relate.

(j) Subsequent events -

Subsequent events at the end of the year that provide additional information about the status of assets and liabilities of the institution at the date of the statement of assets and liabilities (adjustment events) are included in the financial statements. Significant subsequent events that are not adjustment events are disclosed in notes to the financial statements.

3. Standards and interpretations published but not effective

The International Accounting Standards Board issued the following International Financial Reporting Standards, which are not yet effective at the date of issuance of the financial statements of the institution. The institution will adopt these rules, if applicable, when they are effective:

IFRS 15 "Revenue from contracts with customers", full or modified retroactive application is required for annual periods beginning on or after January 1, 2018. Early adoption with retrospective application is permitted. The Accounting Standards Board (CNC), on December 13, 2017, through Resolution No. 005-2017-EF / 30, has made official the application of IFRS 15 for annual periods beginning on or after January 1, 2019.

IFRS 16: "Leases", effective for annual periods beginning on or after January 1, 2019. Early adoption permitted but not before the implementation of IFRS 15 with retrospective application.

IFRIC 23, Uncertainty regarding the treatment of income tax, the interpretation is effective for annual periods beginning on January 1, 2019. The Accounting Standards Board (CNC), on September 26, 2017

through the Resolution No. 004-2017-EF / 30 has formalized the application of IFRIC 23 for annual periods beginning on or after January 1, 2019.

The Executive Management of the institution is analyzing the possible effects of these rules.

4. Transactions in foreign currency

Transactions in foreign currency are carried out at free market exchange rates. The exchange rates in effect as of December 31, 2018, published by the Superintendent of Bank, Insurance and Pension Fund Administrator, applied by the institution in the asset and liability accounts are S/3.369 for the purchase and S/3.379 for the sale for each US $ 1.00 (S/3.238 for the purchase and S/3.245 for the sale at December 31, 2017 (unaudited) for each US $ 1.00), respectively.

As of December 31, 2018 and 2017 (unaudited), the institution had the following assets and liabilities in US dollars:

	2018 US$	2017 US$ (Unaudited)
Assets		
Cash	64,921	83,755
	64,921	83,755
Liabilities		
Payable accounts	(6,278)	-
Other payable accounts	(15,492)	(9,135)
	(21,770)	(9,135)
Net asset position	43,151	74,620

As of December 31, 2018, and 2017 (unaudited), the Executive Management of the institution has decided to accept the foreign exchange risk of this position, so it has not carried out operations with derivative products for its coverage.

During fiscal year 2018, the institution registered a loss for exchange differences in the ascending order of S/186,919 (S/19,696 during fiscal year 2017 (unaudited)), which are presented in the statement of income and expenses as part of the caption "Net loss from currency exchange difference".

5. Cash

(a) This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Cash	376	434
Bank accounts (b)	218,827	309,530
	219,203	309,964

(b) The institution maintains current accounts in local banks, which are denominated in Soles and in US Dollars, are freely available and yield interest at market rates.

6. Buildings, furniture and equipment, net

(a) Below is the composition and movement of buildings, furniture and equipment, net as of December 31, 2018 and 2017 (unaudited):

	Buildings and facilities S/	Furniture and fixtures S/	Miscellaneous equipment S/	Total S/
Cost				
Balance as of January 1, 2017 (unaudited)	219,474	115,080	156,792	491,346
Additions (c)	-	4,083	15,626	19,709
Balance as of December 31, 2017 (unaudited)	219,474	119,163	172,418	511,055
Additions (c)		4,870	10,071	14,941
Balance as of December 31, 2018	219,474	124,033	182,489	525,996
Accumulated depreciation				
Balance as of January 1, 2017 (unaudited)	4,024	6,345	24,539	34,908
Additions	6,675	11,668	28,517	46,860
Balance as of December 31, 2017 (unaudited)	10,699	18,013	53,056	81,768
Additions	6,676	12,355	31,907	50,938
Balance as of December 31, 2018	17,375	30,368	84,963	132,706
Net value as of December 31, 2017 (unaudited)	208,775	101,150	119,362	429,287
Net value as of December 31, 2018	202,099	93,665	97,526	393,290

(b) The institution maintains insurance on its main assets in accordance with the policies established by the Management. In this regard, as of December 31, 2018 and 2017 (unaudited), the institution has contracted corporate insurance policies for material damages and loss of profits up to a value of US$183,368 equivalent to S/617,767 approximately.

(c) The additions correspond mainly to the purchase of computer equipment and furniture and equipment for the administrative offices of the institution.

(d) As of December 31, 2018, the Management made an assessment on the state of use of its buildings, furniture and equipment and has not found signs of impairment in said assets.

7. Trade accounts payable

(a) This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Invoices to pay (b)	41,074	1,399
	41,074	1,399

(b) This item mainly includes obligations with local suppliers referred to consultancy in research projects as part of the activities of the institution.

8. Other accounts payable

This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Fifth category tax	34,605	31,634
Compensation for Length of Service	33,421	30,867
Contributions to the pension system	22,849	338
Salaries	18,924	-
Contributions to EsSalud	13,613	9,994
Fourth category tax	7,029	9,383
	130,441	82,216

9. Institutional Equity

The institutional equity of the institution consist of the value of the transfers received from its parent company for the amount of S/16,366,940 as of December 31, 2018 (S/11,376,836 as of December 31, 2017 (unaudited); as well as the accumulated losses resulting from the operating expenses of the periods for the amount to S/15,908,475 as of December 31, 2018 (S/10,696,342 as of December 31, 2017 (unaudited). It should be noted that during 2018, the value of the remittances received from the parent company amounted to S/4,990,104 (S/5,146,001 as of December 31, 2017 (unaudited).

10. Tax situation

(a) As mentioned in note 1, the institution is a non-profit organization and has among its main objectives the capture of resources of its parent company to allocate them in research projects and campaigns related to the population's awareness for the preservation of the marine environment. According to subsection b) of Article 19 of the Consolidated Unified Text (TUO) of the Income Tax Law, approved by Supreme Decree No. 179-2004-EF, the income earmarked for its specific purposes in the country, from affected foundations and non-profit associations whose instrument of incorporation includes exclusively one or more of the following purposes: charity, social assistance, education, cultural, scientific, artistic, literary, sports, political, trade associations, housing; provided that they are not distributed directly or indirectly among the associates and that in their bylaws it is foreseen that their Additional Capital will be allocated, in the event of dissolution to any of the aforementioned purposes, they will enjoy the exemption from income tax. In accordance with Article 1 of Law No. 29820, published on December 28, 2011, the entities enjoyed this exoneration until December 31, 2012, not being applicable to the institution because it started operations on April 1, 2015. Also, in accordance with article 3 of Law No. 30404, published on December 30, 2015, this exemption was extended until December 31, 2019.

(b) The tax authorities have the right to review and, if applicable, correct the income tax calculated by the institution in the four years after the year of filing the tax return. The sworn statements for the years ended 2015 to 2018 are pending inspection by the Tax Authority.

In the opinion of the Executive Management of the institution and its legal advisors, any eventual additional tax assessment would not be significant for the financial statements as of December 31, 2018 and 2017 (unaudited).

11. Labor expenses

(a) This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Salaries	1,876,142	1,873,738
Christmas and Independence bonuses	362,185	351,820
Contributions to EsSalud	178,099	178,202
Vacation benefits	102,674	106,265
Compensation for Length of Service	189,672	189,114
Others	66,109	44,617
	2,774,881	2,743,756

(b) As of December 31, 2018, and 2017 (unaudited), the number of workers increased to 15 during both periods.

12. Services provided by third parties

(a) This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Advisory and consulting (c)	1,000,760	930,642
Transportation and travel expenses	489,000	393,148
Rentals	236,044	232,699
Computer services	100,752	45,749
Basic services	91,142	93,097
Advertising	60,004	375,741
Maintenance and repairs	34,559	55,093
Others	14,919	34,466
	2,027,180	2,160,635

(b) The services provided by third parties include the expenses necessary for the operation of the institution, as well as the maintenance and repair work of the administrative facilities.

(c) As of December 31, 2018, and 2017 (unaudited), the expenses for advisory and consultancy correspond mainly to consultancies in research projects and awareness campaigns for the preservation of the marine environment for S/905,326 and S/778,673, respectively.

13. Other charges

This caption is made up as follows:

	2018 S/	2017 S/ (Unaudited)
Office supplies	109,974	57,423
Others	58,395	37,269
Insurance	1,935	15,614
	170,304	110,306

14. Financial risk management

The institution's activities are exposed to different financial risks, including the effects of changes in foreign exchange rates and liquidity. The institution's risk management program seeks to minimize the potential adverse effects on its financial performance.

The Management of the institution is aware of the conditions existing in the market and, based on its knowledge and experience, controls the exchange rate and liquidity risks, following the policies approved by the Management. The most important aspects for the management of these risks are:

Market risk -

Market risk is the risk that the fair value of future flows of a financial instrument fluctuates due to changes in market prices. In the case of the institution, market risk includes exchange rate risk and liquidity risk.

- Exchange rate risk-

  The exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The institution's exposure to exchange rate risk is related to the institution's operating activities.

Next, we present a table showing the effects on the results (in an assumed scenario), for a reasonable variation in foreign currency exchange rates (US dollar), keeping all other variables constant:

Sensitivity analysis	Change in exchange rates %	2018 S/	2017 S/ (Unaudited)
Devaluation -			
US Dollars	10%	(14,516)	(25,130)
US Dollars	5%	(7,258)	(12,565)
Revaluation -			
US Dollars	10%	14,516	25,130
US Dollars	5%	7,258	12,565

- Liquidity risk -

The institution monitors its liquidity risk using a short and long-term projected cash flow.

The objective of the institution is to maintain a continuity of funds and a flexibility of the same that allows it to fully cover its short-term liabilities. The maturities of the institution's obligations are summarized below, based on the contractual amounts to be disbursed and undiscounted:

	Up to 1 month S/	Up to 6 months	More than 1 year	Total S/
As of December 31, 2018				
Trade accounts payable	130,441	-	-	130,441
Other accounts payable	41,074	-	-	41,074
	171,515	-	-	171,515
As of December 31, 2017 (unaudited)				
Trade accounts payable	82,216	-	-	82,216
Other accounts payable	1,399	-	-	1,399
	83,615	-	-	83,615

15. Commitments and contingencies

As of December 31, 2018, the institution maintains a guarantee in favor of BBVA Banco Continental for US$65,000, to guarantee compliance with the obligations resulting from the use of credit cards in its name. In the opinion of Executive Management, there are no significant lawsuits or claims pending to be resolved or other contingencies against the institution as of December 31, 2018 and 2017 (unaudited).

16. Subsequent events

Between January 1, 2019 and the date of issuance of these financial statements, no subsequent events of a financial or accounting nature have occurred that may affect the interpretation of these financial statements.

17. Explanation added for translation to English language

The accompanying financial statements were originally issued in Spanish and are presented on the basis of Generally Accepted Accounting Principles (Peruvian GAAP), as described in note 2. These financial statements should be read in conjunction with the Spanish financial statements, in the event of discrepancy the Spanish language version prevails.

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