

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2017 AND 2016

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LMHS, P.C.

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To The Stockholders
Equal Exchange, Inc.
Canton, Massachusetts

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Equal Exchange, Inc. (a Massachusetts Corporation), OKE USA Fruit Company (a Subsidiary) and EE Wholesale (UK) LTD (a Subsidiary), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equal Exchange, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LMHS, P.C.

LMHS, P.C.
Norwell, Massachusetts

April 16, 2018

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash	\$ 1,188,338	\$ 1,449,213
Accounts Receivable, Net	7,760,370	5,451,801
Inventory	23,214,910	22,224,038
Prepaid Expenses and Other	1,270,402	1,372,836
Prepaid Corporate Income Taxes	636,393	-
Deferred Income Taxes	123,866	159,866
	34,194,279	30,657,754
 PROPERTY AND EQUIPMENT, NET	 6,242,802	 5,688,004
 OTHER ASSETS:		
Intangible Assets, Net	4,421	4,826
Investments	262,611	220,857
Notes Receivable	285,000	335,000
	552,032	560,683
	\$ 40,989,113	\$ 36,906,441
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
 CURRENT LIABILITIES:		
Notes Payable - Lines of Credit	\$ 6,243,093	\$ 2,727,569
Current Portion of Long-Term Debt	1,203,436	408,722
Accounts Payable and Accrued Expenses	3,850,216	3,470,846
Corporate Income Taxes Payable	10,334	543,758
Patronage Rebates Payable	241,346	971,677
	11,548,425	8,122,572
 LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion, Net of Unamortized Debt Issuance Costs	4,395,290	4,274,036
Deferred Income Taxes	833,000	1,014,000
	5,228,290	5,288,036
 MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	 195,440	 186,370
 STOCKHOLDERS' EQUITY:		
Preferred Stock	16,988,293	16,609,119
Common Stock	444,916	429,286
Less: Subscriptions Receivable	(75,533)	(97,002)
Retained Earnings	6,649,909	6,368,060
Accumulated Other Comprehensive Income	9,373	-
	24,016,958	23,309,463
	\$ 40,989,113	\$ 36,906,441

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
NET SALES	\$ 70,899,311	\$ 70,079,497
COST OF SALES	<u>51,804,858</u>	<u>49,347,201</u>
GROSS PROFIT	19,094,453	20,732,296
OPERATING EXPENSES:		
Bad Debt Expense	12,567	51,524
General and Administrative	<u>17,189,027</u>	<u>17,037,452</u>
	<u>17,201,594</u>	<u>17,088,976</u>
EARNINGS FROM OPERATIONS	1,892,859	3,643,320
OTHER INCOME AND (EXPENSES):		
Gain (Loss) on Investment	2,393	(203,275)
Interest Income	72,618	81,494
Interest Expense	<u>(546,461)</u>	<u>(403,027)</u>
	<u>(471,450)</u>	<u>(524,808)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,421,409	3,118,512
INCOME TAXES (CREDIT):		
Current:		
Federal	312,564	1,352,539
State	<u>120,901</u>	<u>318,461</u>
	433,465	1,671,000
Deferred:		
Federal	(105,000)	(59,300)
State	<u>(40,000)</u>	<u>(40,000)</u>
	<u>(145,000)</u>	<u>(99,300)</u>
	<u>288,465</u>	<u>1,571,700</u>
EARNINGS BEFORE MINORITY INTEREST	1,132,944	1,546,812
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARIES	<u>(13,070)</u>	<u>(22,251)</u>
NET EARNINGS	<u>\$ 1,119,874</u>	<u>\$ 1,524,561</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Subscriptions Receivable</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Earnings</u>	<u>Total</u>
Balance, January 1, 2016	\$ 16,615,995	\$ 411,673	\$ (84,318)	\$ 5,666,641	\$ -	\$ 22,609,991
Shares Issued	84,795	70,600	-	-	-	155,395
Dividends Reinvested	519,301	-	-	-	-	519,301
Shares Redeemed	(610,972)	(52,987)	-	-	-	(663,959)
Subscriptions Receivable	-	-	(12,684)	-	-	(12,684)
Comprehensive Income:						
Net Earnings	-	-	-	1,524,561	-	1,524,561
Comprehensive Income:	-	-	-	1,524,561	-	1,524,561
Dividends to Stockholders	-	-	-	(823,142)	-	(823,142)
Balance, December 31, 2016	<u>16,609,119</u>	<u>429,286</u>	<u>(97,002)</u>	<u>6,368,060</u>	<u>-</u>	<u>23,309,463</u>
Shares Issued	171,755	64,215	-	-	-	235,970
Dividends Reinvested	533,499	-	-	-	-	533,499
Shares Redeemed	(326,080)	(48,585)	-	-	-	(374,665)
Subscriptions Receivable	-	-	21,469	-	-	21,469
Comprehensive Income:						
Net Earnings	-	-	-	1,119,874	-	1,119,874
Other Comprehensive Gain of Foreign Currency Translation	-	-	-	-	9,373	9,373
Comprehensive Income:	-	-	-	1,119,874	9,373	1,129,247
Dividends to Stockholders	-	-	-	(838,025)	-	(838,025)
Balance, December 31, 2017	<u>\$ 16,988,293</u>	<u>\$ 444,916</u>	<u>\$ (75,533)</u>	<u>\$ 6,649,909</u>	<u>\$ 9,373</u>	<u>\$ 24,016,958</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 1,119,874	\$ 1,524,561
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit)	(145,000)	(99,300)
Depreciation and Amortization	1,205,353	1,117,029
Interest Expense	3,922	3,923
(Increase) Decrease in:		
Accounts Receivable	(2,308,569)	(848,212)
Inventory	(990,872)	(3,498,109)
Prepaid Expenses and Other	102,434	60,683
Prepaid Corporate Income Taxes	(636,393)	140,342
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	379,370	439,671
Corporate Income Taxes Payable	(533,424)	543,758
Patronage Rebates Payable	(730,331)	790,669
	(2,533,636)	175,015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(1,759,746)	(535,721)
(Increase) Decrease in Investments, Net	(32,381)	168,275
(Increase) Decrease in Notes Receivable, Net	50,000	(35,000)
	(1,742,127)	(402,446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	12,633,444	14,162,544
Long-Term Debt	1,000,000	1,650,000
Debt Reduction:		
Notes Payable - Lines of Credit	(9,117,920)	(13,222,349)
Long-Term Debt	(87,954)	(1,395,615)
Increase in Minority Interest	9,070	17,651
Proceeds From Common Stock Subscriptions	85,684	57,916
Proceeds From Issuance of Preferred Stock	171,755	84,795
Proceeds From Dividend Reinvestment in Preferred Stock	533,499	519,301
Redemption of Preferred Stock	(326,080)	(610,972)
Redemption of Common Stock	(48,585)	(52,987)
Preferred Stock Dividend Paid	(838,025)	(823,142)
	4,014,888	387,142
NET INCREASE (DECREASE) IN CASH	(260,875)	159,711
CASH - BEGINNING	1,449,213	1,289,502
CASH - ENDING	\$ 1,188,338	\$ 1,449,213

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During The Year For:		
Interest	\$ 542,539	\$ 408,868
Income Taxes	\$ 1,030,297	\$ 986,900
Schedule of Noncash Investing Transactions:		
Investment Gain on Foreign Currency Translation	\$ 9,373	\$ -

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. Principles of Consolidation - The consolidated financial statements include the accounts of Equal Exchange, Inc., its majority-owned subsidiary OKE USA Fruit Company and its wholly-owned subsidiary EE Wholesale (UK) LTD (the Company). All significant intercompany transactions and balances have been eliminated in these consolidated financial statements.
2. Organization - Equal Exchange, Inc. was organized under the General Laws of the Commonwealth of Massachusetts as a worker cooperative and commenced operations in 1986. All voting stock is owned by employees of Equal Exchange, Inc., each of whom is limited to one share. Equal Exchange, Inc. distributes a portion of its annual profits to the worker-owners as a patronage rebate. Worker-owners may decide to extend membership to an employee after one year of service. Equal Exchange, Inc. also offers non-voting preferred stock, which pays a variable, noncumulative, annual dividend, targeted at five percent of the value of the preferred stock.

OKE USA Fruit Company was incorporated under the laws of the state of Delaware on May 18, 2006.

EE Wholesale (UK) LTD was incorporated under the laws of the Registrar of Companies for England and Wales on April 24, 2017.

3. Operations - Equal Exchange, Inc. is engaged in the manufacturing and distribution of coffee, tea, cocoa, chocolate and related products nationally, with its main office located at 15 Campanelli Cir, Canton, Massachusetts. Equal Exchange, Inc. was formed to establish equitable trade relationships between small farmers around the world and U.S. consumers. Equal Exchange, Inc. buys green coffee beans directly from farmers' cooperatives and imports the coffee to the United States. Equal Exchange, Inc. pays a price that covers the cost of production, provides farmers a living wage, and includes a social premium to the cooperative, in accordance with internationally established fair trade practices. Tea, cocoa and chocolate are also purchased according to fair trade practices. Equal Exchange, Inc. performs coffee roasting and packaging production at its West Bridgewater, Massachusetts facility. In addition, Equal Exchange, Inc. contracts for coffee roasting, cocoa and chocolate manufacturing, and product packaging, and sells and distributes its products nationally through distributors, retail stores, restaurants and solidarity organizations. To better serve its customers, Equal Exchange, Inc. purchases and loans coffee grinders, brewers and retail display equipment to its customers.

OKE USA Fruit Company wholesales produce to customers in the United States while establishing a model for international trade that fosters farmer ownership, fair trade practices and environmental protection.

EE Wholesale (UK) LTD is based in the UK and is focused on maintaining relationships with small farmer cooperatives while trying to build demand for authentic fair trade in a country where the concept has been taken over by large players. EE Wholesale (UK) LTD is concentrating on selling to independent natural food stores and small chains.

4. Method of Accounting - The Company's policy is to prepare its consolidated financial statements on the accrual method of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. This method of accounting conforms to generally accepted accounting principles.
5. Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of deposits in excess of federally insured limits, accounts receivable, and credit guarantees for certain vendors. These risks are managed by maintaining all deposits in high quality financial institutions, obtaining signed sales orders, and/or establishing credit limits with all customers, and obtaining signed contracts with vendors. Management believes that the Company is not exposed to any significant credit risk as a result of these credit concentrations.

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

6. Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.
7. Inventory - Inventories are stated at the lower of cost (first-in, first-out) or market.
8. Property and Equipment - Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred whereas major betterments are capitalized. Depreciation is computed using the straight-line method over three to thirty-nine years.
9. Intangible Assets - Intangible assets subject to amortization include capitalized software and development costs, all of which are amortized using the straight-line method over seven to ten years.
10. Revenue Recognition - Revenue on sales of coffee, tea, cocoa, chocolate, produce and related products is recognized when orders are shipped.
11. Fair Value of Financial Instruments - The Company's financial instruments include cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued expenses, notes payable and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued expenses, and notes payable approximate their fair values based on their short-term nature. The recorded values of long-term debt approximate their fair values, as current interest rates approximate market rates.
12. Freight - The Company includes freight in as a component of inventory and freight out as part of cost of sales.
13. Income Taxes - The Company exists, for income tax purposes, as three separate entities: Equal Exchange, Inc., OKE USA Fruit Company and EE Wholesale (UK) LTD. Federal and state income taxes are provided based upon earnings and tax rates applicable to the Company using the method of accounting described above.

EE Wholesale (UK) LTD is obliged to file income tax returns within the United Kingdom.

Deferred income taxes are provided for differences in timing in reporting income for consolidated financial statement and tax purposes arising principally from differences in the methods of accounting for allowances for bad debts, accrued absences and depreciation. Bad debts are reported for tax purposes on the direct write-off method and for consolidated financial statement purposes on the allowance method. Accrued absences are reported for tax purposes on the cash method and for consolidated financial statement purposes on the accrual method. Depreciation is reported for tax purposes over shorter periods of time and at a more accelerated rate than the method for consolidated financial statement purposes. Deferred tax assets and liabilities are classified as current or non-current in the accompanying consolidated balance sheets, based upon classification of the related asset or liability.

14. Uncertainty In Income and Other Taxes - The Company adopted the new standards for *Accounting for Uncertainty in Income Taxes* (income, sales, use and payroll), which requires the Company to report any uncertain tax positions and to adjust its consolidated financial statements for the impact thereof. As of December 31, 2017 and 2016, the Company determined that it had no tax positions that did not meet the "more likely than not" threshold of being sustained by the applicable tax authority. The Company files tax and information returns in the United States Federal, Massachusetts and other state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

15. Sales Tax - The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed on sales are recorded as accrued liabilities until remitted to state agencies.
16. General and Administrative Expenses - These expenses are charged to operations as incurred and are not allocated to cost of sales.
17. Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
18. Patronage Rebates - The By-Laws of Equal Exchange, Inc. require it to make a patronage rebate to each worker-owner, based on its current year profit. Accordingly, the Company accounts for patronage rebates as an increase in operating expenses in the current year.
19. Debt Issuance Costs - In 2017 the Company retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction on the carrying amount of the debt rather than as an asset (See Note 1). Long-Term Debt as of December 31, 2016 was previously reported on the balance sheets as \$4,712,180 with the associated \$29,422 unamortized debt issuance costs included in other assets. The costs are amortized using the interest method over the life of the debt. Amortization of the debt issuance costs is now reported in interest expense on the statements of earnings.

B. ALLOWANCE FOR DOUBTFUL ACCOUNTS:

The Company utilizes the allowance method to account for uncollectible accounts receivable balances. Under the allowance method, an estimate of uncollectible customer balances is made based on the Company's prior history and other factors such as the credit quality of the customer and economic conditions of the market. Based on these factors, at December 31, 2017 and 2016, there was an allowance for doubtful accounts of \$245,087 and \$50,000, respectively.

C. INVENTORY:

Inventory consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Unprocessed green coffee beans and bananas	\$14,631,217	\$12,929,479
Processed coffee, tea, cocoa, chocolate, snacks and supplies	8,583,693	9,294,559
	<u>\$23,214,910</u>	<u>\$22,224,038</u>

D. PROPERTY AND EQUIPMENT:

Property and Equipment consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Land	\$502,688	\$502,688
Building and Improvements	4,215,951	4,215,951
Coffee Roasting and Packaging Equipment	6,417,673	5,029,688
Furniture, Fixtures, Equipment and Software	4,731,978	4,527,159
	<u>15,868,290</u>	<u>14,275,486</u>
Accumulated Depreciation	(9,625,488)	(8,587,482)
	<u>\$6,242,802</u>	<u>\$5,688,004</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

E. INTANGIBLE ASSETS:

Intangible assets consist of the following as of December 31:

	2017	2016
Capitalized Software and Development Costs, Net of Accumulated Amortization of \$226,885 and \$226,480 in 2017 and 2016, respectively.	\$4,421	\$4,826

In accordance with FASB ASC 350-40-30-1, the Company capitalized the costs associated with establishing a cooperative supply chain referred to as P6. These costs include software development, product branding, website design and launch, brochure production, legal costs and marketing initiatives.

F. INVESTMENTS:

The Company holds investments in various other similar, fair-trade or socially conscious organizations. All investments are carried at the lower of cost or estimated market value. Investments consist of the following at December 31:

	2017	2016
Liberation Foods, Community Interest Company, UK	\$63,360	\$63,360
CERO Cooperative, Inc. - 200 Preferred Shares	5,000	5,000
NCB, Federal Savings Bank - 220 Shares Class B	21,997	21,997
Real Pickles Co-op - Preferred Stock	5,000	5,000
RIA Brewing, Inc.	5,000	-
LaSiembra - 10,000 Shares Class A	117,254	80,500
Dorchester Food Coop	10,000	10,000
Artisan Beverage	35,000	35,000
	\$262,611	\$220,857

G. NOTES RECEIVABLE:

Notes Receivable consist of the following at December 31:

	2017	2016
6.00% Promissory Note Receivable - La Siembra: Interest only payments to July, 2020. \$50,000 was repaid on May, 2017. This note is collateralized by certain intellectual property of the borrower.	\$250,000	\$300,000
5.00% Promissory Note Receivable - Norandino: Interest only payments to October, 2021.	35,000	35,000
	\$285,000	\$335,000

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

H. NOTES PAYABLE - LINES OF CREDIT:

The Company has a \$4,000,000 unsecured rolling credit facility with Shared Interest, a socially responsible organization based in the United Kingdom. The purpose of this credit facility is to finance purchases from small farmer associations approved by Shared Interest. Under the terms of this credit facility, Shared Interest pays producers for coffee shipped to the Company. The Company is required to repay Shared Interest in full within five months following the settlement date. Advances bear interest at the borrowing rate of Shared Interest, plus one percent, 8.25% and 7.25% at December 31, 2017 and 2016, respectively. This credit facility may be terminated upon 180 days notice. At December 31, 2017 and 2016, the outstanding balance on this rolling credit facility amounted to \$2,068,093 and \$2,425,934, respectively.

The Company has \$500,000 of secured lines of credit with Eastern Bank. These lines of credit bear interest at the bank's prime lending rate and are secured by certificates of deposit held by Eastern Bank that are owned by individuals and institutions affiliated with the Company. The Company can borrow up to ninety percent of the face value of the certificates of deposit. At December 31, 2017 and 2016, the outstanding balance on these lines of credit amounted to \$275,000 and \$300,000, respectively.

Equal Exchange, Inc. has a \$2,500,000 line of credit with NCB, Federal Savings Bank (FSB). This line of credit bears interest at the bank's prime rate plus fifty basis points and is secured by accounts receivable. At December 31, 2017 and 2016, the outstanding balance on this line of credit amounted to \$1,400,000 and zero, respectively.

In June 2017, Equal Exchange, Inc. increased the line of credit with Eastern Bank to \$5,000,000. This line of credit bears interest at the bank's prime lending rate and is secured by the Company's inventory. At December 31, 2017 and 2016, the outstanding balance on this line of credit amounted to \$2,500,000 and \$1,635, respectively.

I. LONG-TERM DEBT:

Long-Term Debt consists of the following at December 31:

	2017	2016
4.00% Note Payable - Cooperative Fund of NE: Due in annual interest-only payments with a balloon payment due April, 2018.	\$500,000	\$500,000
3.75% Note Payable - Twin Pines Cooperative Foundation: Due in annual interest-only payments with a balloon payment due May, 2019.	100,000	100,000
3.75% Note Payable - Twin Pines Cooperative Foundation: Due in annual interest-only payments with a balloon payment due May, 2020.	100,000	100,000
3.00% Notes Payable - Various Individuals and Institutions: to 5.00% Due in annual or semi-annual interest-only payments, with balloon payments due at varying maturity dates through December, 2022.	2,121,000	2,121,000

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

I. LONG-TERM DEBT: (Continued)

	2017	2016
4.50% Mortgage Note Payable - RSF Social Enterprise: Due in monthly installments of \$11,254 including interest through June, 2024.	1,844,783	1,891,180
4.14% Note Payable - Eastern Bank: Due in monthly installments of \$10,220 including interest through June, 2024.	958,442	-
Principal Amount	5,624,225	4,712,180
Less Unamortized Debt Issuance Costs	(25,499)	(29,422)
	5,598,726	4,682,758
Current Portion	(1,203,436)	(408,722)
Long - Term Debt, Net of Unamortized Debt Issuance Costs	\$4,395,290	\$4,274,036

The following is a schedule by years of the aggregate maturities of indebtedness at December 31,:

2018	\$1,203,436
2019	280,611
2020	1,646,889
2021	175,589
2022 and Thereafter	2,317,700
	\$5,624,225

J. MINORITY INTEREST IN SUBSIDIARY:

An ownership interest of 7.5% in the subsidiary is held by unrelated parties. This interest, reflected on the consolidated balance sheets as a separate line item, is the summation of the net investments made by these unrelated parties plus their proportionate share of the inception-to-date earnings and loss, and is not necessarily reflective of its market value.

K. CAPITAL STRUCTURE:

I. Preferred Stock

The Company has a single class of non-voting Class B preferred stock. These shares have a par value of \$1 and a face value of \$27.50, and are sold to individuals and organizations. The Company pays annual cash dividends, targeted at five percent of the face value of the preferred stock. The actual amount is declared annually by the Board of Directors based on Company performance. The dividend is non-cumulative. The preferred shares have a dissolution preference equal to their face value.

Stockholders owning preferred stock may, beginning two years after the original purchase date, sell their preferred stock back to the Company in accordance with the following schedule:

- After year 2 - at 70% of face value
- After year 3 - at 80% of face value
- After year 4 - at 90% of face value
- After year 5 - at 100% of face value

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

K. CAPITAL STRUCTURE: (Continued)

In 2014, the Board of Directors authorized and approved a Private Placement in which the corporation intended to raise up to \$5,000,000 through the sale of Class B Preferred Stock. Although there were no offerings in place during these periods, the Company did record the following transactions in 2017: Issued 19,400 shares valued at \$533,499 in reinvested dividends; converted twenty percent of its Patronage distribution to 6,245 shares valued at \$171,754; and, according to its bylaws, issued 156 shares valued at \$4,290 to outside Board Directors. During 2016 the Company recorded the following transactions: issued 18,884 shares valued at \$519,301 in reinvested dividends; converted fifty percent of its Patronage distribution to 2,616 shares valued at \$71,936; and, according to its bylaws, issued 104 shares valued at \$2,860 to outside Board Directors. Redemptions for 2017 and 2016 were 11,857 shares valued at \$326,080 and 18,968 shares valued at \$600,931, respectively.

All stock subscription agreements referred to above were executed in accordance with the rules and regulations under Section 3(b) of Regulation D, Rule 506 of the Securities and Exchange Commission pursuant to the Securities Act of 1933.

The Company has the option of making the redemptions described above by converting the preferred shares to five year, five percent promissory notes.

If at any time the debt-to-equity ratio of the Company (defined as the Company's total liabilities divided by the Company's total stockholders' equity) exceeds 2:1, the Board of Directors may postpone or refuse a request for redemption. In addition, if at any time the Board of Directors determines that a requested redemption would impair the ability of the Company to operate effectively, the Board of Directors may limit, postpone or refuse the requested redemption.

The face value of preferred stock, eligible for redemption under the terms described above, are as follows for the year ending December 31,:

2018	\$15,624,992
2019	542,504
2020	589,280
2021	188,688
2022 and Thereafter	42,829
	<u>\$16,988,293</u>

2. Common Stock

The Company has a single class of voting Class A common stock, referred to as membership shares. Class A common shares have a \$1 par value and are sold at a price equal to \$2,000 per share, plus inflation since 1990. In 2017 and 2016, the price per share was \$3,575 and \$3,530, respectively. After one year's service, and absent denial of membership by 20% of the existing members, employees of the Company may purchase one membership share. No individual may own more than one membership share. No dividends are paid on these shares, but the employees who hold them are eligible for patronage rebates.

3. Common Stock Subscriptions Receivable

Members usually choose to pay for their membership share through payroll deductions over several years. The Company issues the membership share immediately and credits the common stock account for the full issue price of the share; unpaid amounts due from the member are recorded as Common Stock Subscriptions Receivable, which are separately reflected as a reduction to Stockholders' Equity.

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

K. CAPITAL STRUCTURE: (Continued)

4. Preferred Stock Transactions

	<u># of Shares</u>	<u>Par Value</u>	<u>Premium Over Par Value</u>	<u>Total Paid In on Preferred Stock</u>
Balance, December 31, 2015	604,216	\$ 604,216	\$ 16,011,779	\$ 16,615,995
Shares issued for cash	3,083	3,083	81,712	84,795
Dividends Reinvested	18,884	18,884	500,417	519,301
Shares Redeemed and Other Adjustments	<u>(22,216)</u>	<u>(22,216)</u>	<u>(588,756)</u>	<u>(610,972)</u>
Balance, December 31, 2016	603,967	\$ 603,967	\$ 16,005,152	\$ 16,609,119
Shares issued for cash	6,246	6,246	165,509	171,755
Dividends Reinvested	19,400	19,400	514,099	533,499
Shares Redeemed and Other Adjustments	<u>(11,857)</u>	<u>(11,857)</u>	<u>(314,223)</u>	<u>(326,080)</u>
Balance December 31, 2017	<u>617,756</u>	<u>\$ 617,756</u>	<u>\$ 16,370,537</u>	<u>\$ 16,988,293</u>

The Board of Directors has authorized and the articles have been amended to increase the number of both common and preferred shares to 500 and 9,999,500, respectively.

5. Common Stock Transactions

	<u># of Shares</u>	<u>Par Value</u>	<u>Premium Over Par Value</u>	<u>Total Paid In on Common Stock</u>
Balance, December 31, 2015	132	\$ 132	\$ 411,541	\$ 411,673
Shares issued for subscriptions receivable	20	20	70,580	70,600
Shares redeemed for cash	<u>(15)</u>	<u>(15)</u>	<u>(52,972)</u>	<u>(52,987)</u>
Balance, December 31, 2016	137	\$ 137	\$ 429,149	\$ 429,286
Shares issued for subscriptions receivable	18	18	64,197	64,215
Shares redeemed for cash	<u>(15)</u>	<u>(15)</u>	<u>(48,570)</u>	<u>(48,585)</u>
Balance, December 31, 2017	<u>140</u>	<u>\$ 140</u>	<u>\$ 444,776</u>	<u>\$ 444,916</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

L. INCOME TAXES:

The Company accounts for income taxes in accordance with FASB ASC 740, whereby deferred taxes are provided for temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Deferred taxes relate primarily to differences in calculating depreciation on fixed assets and the timing of deductibility of certain other operating expenses.

M. PATRONAGE REBATES:

The By-Laws of Equal Exchange, Inc. require it to make an annual patronage rebate to each worker-owner. The patronage rebate is calculated at forty percent of the net profit or loss, after state income taxes and preferred stock dividend payments, but before charitable donations and federal income taxes. The rebate is then adjusted to reflect the ratio of hours worked by worker-owners to hours worked by all employees. Each year, the Board of Directors determines the allocation of the patronage rebate between payments in cash versus deferral held in the worker-owners' capital accounts, subject to a requirement that at least twenty percent be paid in cash. Profits not paid as dividends on preferred stock or as patronage rebates are retained to capitalize the business, and are not allocated to any individual worker-owners. For the years ended December 31, 2017 and 2016, patronage rebate expense amounted to \$176,905 and \$949,511, respectively.

N. ADVERTISING AND BUSINESS PROMOTION:

The Company follows the policy of charging the costs of advertising and business promotion to expense as incurred. For the years ended December 31, 2017 and 2016, advertising costs amounted to \$953,056 and \$1,058,185, respectively.

O. CHARITABLE CONTRIBUTIONS:

The Company makes charitable contributions to unrelated tax exempt organizations that promote Fair Trade Industry activities. For the years ended December 31, 2017 and 2016, charitable contributions amounted to \$110,497 and \$444,551, respectively.

P. OPERATING LEASES:

The Company leases distribution and retail space in Massachusetts, Minnesota, Oregon, Colorado, Washington and Ohio for terms in excess of one year. Rent expense for the years ended December 31, 2017 and 2016 amounted to \$918,055 and \$1,050,862, respectively.

The following is a schedule by years of the future minimum lease payments as of December 31,:

2018	\$1,477,754
2019	182,106
2020	69,720
2021	47,843
2022 and Thereafter	982,800
	<u>\$2,760,223</u>

Q. GUARANTEE OF PRODUCER INDEBTEDNESS:

Shared Interest has committed up to \$1,000,000 for advances directly to producers with contracts to sell coffee to the Company. These advances are limited to sixty percent of the contract price, with a maximum amount per producer of \$135,000, and are available to producers up to ten months before coffee is delivered to the Company. The Company guarantees 25% of the producer advances made by Shared Interest. At December 31, 2017 and 2016, producer advances guaranteed by the Company amounted to \$195,528 and \$617,324, respectively. During the years ended December 31, 2017 and 2016, the Company did not incur any losses related to guaranteed producer advances.

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

R. RETIREMENT PLAN:

The Company sponsors a Safe Harbor 401(k) Retirement Plan for its eligible employees. To become eligible for the Plan, an employee must have completed one full year of continuous employment. For the years ended December 31, 2017 and 2016, the Company contributed 3% of each eligible employee's annual compensation. For the years ended 2017 and 2016, the Company's contribution to this plan totaled \$196,922 and \$197,445, respectively. These amounts are included in Payroll Taxes and Employee Benefits.

S. MAJOR CUSTOMER:

For the years ended December 31, 2017 and 2016, the Company had one major customer, to which sales accounted for approximately 20% of the Company's revenue. At December 31, 2017 and 2016, accounts receivable from this customer represented approximately 19% and 15%, respectively, of the total accounts receivable balance.

T. SUBSEQUENT EVENTS:

Management has evaluated events occurring after the consolidated balance sheet date through April 16, 2018, the date in which the consolidated financial statements were available to be issued. No material events have been identified which would require disclosure under FASB ASC 855-10-50-1.



LMHS, P.C.

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To The Stockholders
Equal Exchange, Inc.
Canton, Massachusetts

We have audited the consolidated financial statements of Equal Exchange, Inc. and Subsidiaries as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated April 16, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

LMHS, P.C.

LMHS, P.C.
Norwell, Massachusetts

April 16, 2018

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2017

	<u>EQUAL EXCHANGE, INC.</u>	<u>OKE USA FRUIT COMPANY</u>	<u>EE WHOLESALE (UK) LTD</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED BALANCE SHEET</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash	\$ 383,700	\$ 774,488	\$ 30,150	\$ -	\$ 1,188,338
Accounts Receivable, Net	6,892,027	578,987	289,356	-	7,760,370
Inventory	22,713,620	302,298	198,992	-	23,214,910
Notes Receivable, Current Portion	250,000	-	-	(250,000)	-
Prepaid Expenses and Other	1,228,355	36,565	5,482	-	1,270,402
Prepaid Corporate Income Taxes	636,393	-	-	-	636,393
Deferred Income Taxes	123,866	-	-	-	123,866
	<u>32,227,961</u>	<u>1,692,338</u>	<u>523,980</u>	<u>(250,000)</u>	<u>34,194,279</u>
PROPERTY AND EQUIPMENT:					
Land	502,688	-	-	-	502,688
Building and Improvements	4,215,951	-	-	-	4,215,951
Coffee Roasting and Packaging Equipment	6,417,673	-	-	-	6,417,673
Furniture, Fixtures, Equipment and Software	4,728,791	-	3,187	-	4,731,978
	<u>15,865,103</u>	<u>-</u>	<u>3,187</u>	<u>-</u>	<u>15,868,290</u>
Accumulated Depreciation	(9,625,488)	-	-	-	(9,625,488)
	<u>6,239,615</u>	<u>-</u>	<u>3,187</u>	<u>-</u>	<u>6,242,802</u>
OTHER ASSETS:					
Intangible Assets, Net	4,421	-	-	-	4,421
Investments	1,446,167	-	-	(1,183,556)	262,611
Notes Receivable, Net of Current Portion	285,000	-	-	-	285,000
	<u>1,735,588</u>	<u>-</u>	<u>-</u>	<u>(1,183,556)</u>	<u>552,032</u>
	<u>\$ 40,203,164</u>	<u>\$ 1,692,338</u>	<u>\$ 527,167</u>	<u>\$ (1,433,556)</u>	<u>\$ 40,989,113</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>					
CURRENT LIABILITIES:					
Notes Payable - Lines of Credit	\$ 6,243,093	\$ -	\$ -	\$ -	\$ 6,243,093
Current Portion of Long-Term Debt	1,203,436	250,000	-	(250,000)	1,203,436
Accounts Payable and Accrued Expenses	3,184,086	448,937	215,612	1,581	3,850,216
Corporate Income Taxes Payable	-	10,334	-	-	10,334
Patronage Rebates Payable	241,346	-	-	-	241,346
	<u>10,871,961</u>	<u>709,271</u>	<u>215,612</u>	<u>(248,419)</u>	<u>11,548,425</u>
LONG-TERM LIABILITIES:					
Long-Term Debt, Net of Current Portion, Net of Unamortized Debt Issuance Costs	4,395,290	-	181,662	(181,662)	4,395,290
Deferred Income Taxes	833,000	-	-	-	833,000
	<u>5,228,290</u>	<u>-</u>	<u>181,662</u>	<u>(181,662)</u>	<u>5,228,290</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	-	-	-	195,440	195,440
STOCKHOLDERS' EQUITY:					
Class A Shares	-	580,639	-	(580,639)	-
Class B Shares	-	175,000	-	(175,000)	-
Class C Shares	-	27,000	-	(27,000)	-
Preferred Stock	16,988,293	-	-	-	16,988,293
Common Stock	444,916	-	90,094	(90,094)	444,916
Less: Subscriptions Receivable	(75,533)	-	-	-	(75,533)
Retained Earnings	6,735,864	200,428	39,799	(326,182)	6,649,909
Accumulated Other Comprehensive Income	9,373	-	-	-	9,373
	<u>24,102,913</u>	<u>983,067</u>	<u>129,893</u>	<u>(1,198,915)</u>	<u>24,016,958</u>
	<u>\$ 40,203,164</u>	<u>\$ 1,692,338</u>	<u>\$ 527,167</u>	<u>\$ (1,433,556)</u>	<u>\$ 40,989,113</u>

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF EARNINGS
YEAR ENDED DECEMBER 31, 2017

	EQUAL EXCHANGE, INC	OKE USA FRUIT COMPANY	EE WHOLESALE (UK) LTD	CONSOLIDATING ENTRIES	CONSOLIDATED EARNINGS
NET SALES	\$ 60,847,784	\$ 9,154,660	\$ 896,867	\$ -	\$ 70,899,311
COST OF SALES:					
Purchases	38,527,352	6,604,749	704,699	-	45,836,800
Freight	3,402,201	1,686,221	26,598	-	5,115,020
Utilities	221,848	-	-	-	221,848
Warehouse Occupancy Costs	123,781	-	23,600	-	147,381
Depreciation	483,809	-	-	-	483,809
	<u>42,758,991</u>	<u>8,290,970</u>	<u>754,897</u>	<u>-</u>	<u>51,804,858</u>
GROSS PROFIT	18,088,793	863,690	141,970	-	19,094,453
OPERATING EXPENSES:					
Salaries and Wages	7,586,158	307,495	45,213	-	7,938,866
Payroll Taxes and Employee Benefits	2,278,912	70,137	-	-	2,349,049
Advertising and Business Promotion	912,434	30,684	9,938	-	953,056
Bad Debt Expense	12,567	-	-	-	12,567
Certification Fees	124,494	6,445	10,676	-	141,615
Charitable Contributions	110,450	47	-	-	110,497
Consulting Expense	-	48,982	-	-	48,982
Contracted Services	996,389	-	-	-	996,389
Credit Card Service Fees	402,990	8,178	-	-	411,168
General and Administrative	245,615	38,418	33,381	-	317,414
Insurance	193,443	7,810	2,785	-	204,038
Office Expense	248,409	11,811	-	-	260,220
Patronage Rebates	176,905	-	-	-	176,905
Payroll Processing Fees	49,961	1,949	-	-	51,910
Postage	28,478	1,555	-	-	30,033
Professional Fees	-	10,676	-	-	10,676
Real Estate Taxes	110,284	-	-	-	110,284
Rent	909,055	9,000	-	-	918,055
Repairs and Maintenance	715,135	-	-	-	715,135
Selling Expenses	396,022	-	-	-	396,022
Telephone	154,987	3,404	-	-	158,391
Utilities	168,778	-	-	-	168,778
Amortization	405	-	-	-	405
Depreciation	721,139	-	-	-	721,139
	<u>16,543,010</u>	<u>556,591</u>	<u>101,993</u>	<u>-</u>	<u>17,201,594</u>
EARNINGS FROM OPERATIONS	1,545,783	307,099	39,977	-	1,892,859
OTHER INCOME AND (EXPENSE):					
Gain on Investment	2,393	-	-	-	2,393
Interest Income	71,114	629	875	-	72,618
Equity in Earnings of Subsidiaries	201,549	-	-	(201,549)	-
Interest Expense	(535,408)	(10,000)	(1,055)	-	(546,461)
	<u>(260,352)</u>	<u>(9,371)</u>	<u>(178)</u>	<u>(201,549)</u>	<u>(471,450)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,285,431	297,728	39,799	(201,549)	1,421,409
INCOME TAXES (CREDIT):					
Current	310,000	123,465	-	-	433,465
Deferred	(145,000)	-	-	-	(145,000)
	<u>165,000</u>	<u>123,465</u>	<u>-</u>	<u>-</u>	<u>288,465</u>
EARNINGS BEFORE MINORITY INTEREST	1,120,431	174,263	39,799	(201,549)	1,132,944
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARIES	-	-	-	(13,070)	(13,070)
NET EARNINGS	<u>\$ 1,120,431</u>	<u>\$ 174,263</u>	<u>\$ 39,799</u>	<u>\$ (214,619)</u>	<u>\$ 1,119,874</u>

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2016

	<u>EQUAL</u> <u>EXCHANGE, INC.</u>	<u>OKE USA</u> <u>FRUIT COMPANY</u>	<u>CONSOLIDATING</u> <u>ENTRIES</u>	<u>CONSOLIDATED</u> <u>BALANCE SHEET</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash	\$ 780,419	\$ 668,794	\$ -	\$ 1,449,213
Accounts Receivable, Net	4,979,575	472,226	-	5,451,801
Inventory	22,009,373	214,665	-	22,224,038
Notes Receivable, Current Portion	250,000	-	(250,000)	-
Prepaid Expenses and Other	1,346,177	26,659	-	1,372,836
Deferred Income Taxes	159,866	-	-	159,866
	29,525,410	1,382,344	(250,000)	30,657,754
PROPERTY AND EQUIPMENT:				
Land	502,688	-	-	502,688
Building and Improvements	4,215,951	-	-	4,215,951
Coffee Roasting and Packaging Equipment	5,029,688	-	-	5,029,688
Furniture, Fixtures, Equipment and Software	4,527,159	-	-	4,527,159
	14,275,486	-	-	14,275,486
Accumulated Depreciation	(8,587,482)	-	-	(8,587,482)
	5,688,004	-	-	5,688,004
OTHER ASSETS:				
Intangible Assets, Net	4,826	-	-	4,826
Investments	934,665	-	(713,808)	220,857
Notes Receivable, Net of Current Portion	335,000	-	-	335,000
	1,274,491	-	(713,808)	560,683
	\$ 36,487,905	\$ 1,382,344	\$ (963,808)	\$ 36,906,441
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
CURRENT LIABILITIES:				
Notes Payable - Lines of Credit	\$ 2,727,569	\$ -	\$ -	\$ 2,727,569
Current Portion of Long-Term Debt	408,722	250,000	(250,000)	408,722
Accounts Payable and Accrued Expenses	3,184,098	270,724	16,024	3,470,846
Corporate Income Taxes Payable	512,942	30,816	-	543,758
Patronage Rebates Payable	971,677	-	-	971,677
	7,805,008	551,540	(233,976)	8,122,572
LONG-TERM LIABILITIES:				
Long-Term Debt, Net of Current Portion, Net of Unamortized Debt Issuance Costs	4,274,036	-	-	4,274,036
Deferred Income Taxes	1,014,000	-	-	1,014,000
	5,288,036	-	-	5,288,036
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	-	-	186,370	186,370
STOCKHOLDERS' EQUITY:				
Class A Shares	-	580,639	(580,639)	-
Class B Shares	-	190,000	(190,000)	-
Class C Shares	-	27,000	(27,000)	-
Preferred Stock	16,609,119	-	-	16,609,119
Common Stock	429,286	-	-	429,286
Less: Subscriptions Receivable	(97,002)	-	-	(97,002)
Retained Earnings	6,453,458	33,165	(118,563)	6,368,060
	23,394,861	830,804	(916,202)	23,309,463
	\$ 36,487,905	\$ 1,382,344	\$ (963,808)	\$ 36,906,441

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF EARNINGS
YEAR ENDED DECEMBER 31, 2016

	<u>EQUAL EXCHANGE, INC</u>	<u>OKE USA FRUIT COMPANY</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED EARNINGS</u>
NET SALES	\$ 62,715,119	\$ 7,364,378	\$ -	\$ 70,079,497
COST OF SALES:				
Purchases	38,614,742	5,127,711	-	43,742,453
Freight	3,365,943	1,385,146	-	4,751,089
Utilities	202,893	-	-	202,893
Warehouse Occupancy Costs	176,899	-	-	176,899
Depreciation	473,867	-	-	473,867
	<u>42,834,344</u>	<u>6,512,857</u>	<u>-</u>	<u>49,347,201</u>
GROSS PROFIT	19,880,775	851,521	-	20,732,296
OPERATING EXPENSES:				
Salaries and Wages	7,204,321	253,152	-	7,457,473
Payroll Taxes and Employee Benefits	2,064,320	61,659	-	2,125,979
Advertising and Business Promotion	1,030,909	27,276	-	1,058,185
Bad Debt Expense	51,524	-	-	51,524
Certification Fees	125,769	6,559	-	132,328
Charitable Contributions	444,551	-	-	444,551
Computer Expense and Service	92,792	40	-	92,832
Consulting Expense	258,157	33,198	-	291,355
Contracted Services	132,391	-	-	132,391
Credit Card Service Fees	351,753	7,822	-	359,575
General and Administrative	267,214	28,868	-	296,082
Insurance	200,806	8,644	-	209,450
Office Expense	172,525	6,984	-	179,509
Patronage Rebates	949,511	-	-	949,511
Payroll Processing Fees	48,599	1,688	-	50,287
Postage	22,648	819	-	23,467
Professional Fees	115,342	13,262	-	128,604
Real Estate Taxes	111,279	-	-	111,279
Rent	1,041,862	9,000	-	1,050,862
Repairs and Maintenance	454,536	-	-	454,536
Selling Expenses	499,418	-	-	499,418
Telephone	147,259	2,699	-	149,958
Utilities	196,658	-	-	196,658
Amortization	405	-	-	405
Depreciation	642,757	-	-	642,757
	<u>16,627,306</u>	<u>461,670</u>	<u>-</u>	<u>17,088,976</u>
EARNINGS FROM OPERATIONS	3,253,469	389,851	-	3,643,320
OTHER INCOME AND (EXPENSES):				
Loss on Investment	(203,275)	-	-	(203,275)
Interest Income	80,836	658	-	81,494
Equity in Earnings of Subsidiary	200,258	-	(200,258)	-
Interest Expense	(393,027)	(10,000)	-	(403,027)
	<u>(315,208)</u>	<u>(9,342)</u>	<u>(200,258)</u>	<u>(524,808)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	2,938,261	380,509	(200,258)	3,118,512
INCOME TAXES:				
Current	1,540,000	131,000	-	1,671,000
Deferred	(160,000)	60,700	-	(99,300)
	<u>1,380,000</u>	<u>191,700</u>	<u>-</u>	<u>1,571,700</u>
EARNINGS BEFORE MINORITY INTEREST	1,558,261	188,809	(200,258)	1,546,812
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARY	-	-	(22,251)	(22,251)
NET EARNINGS	<u>\$ 1,558,261</u>	<u>\$ 188,809</u>	<u>\$ (222,509)</u>	<u>\$ 1,524,561</u>

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2017 AND 2016

<u>CONSOLIDATED SCHEDULES OF COST OF SALES:</u>	<u>2017</u>	<u>2016</u>
Purchases	\$ 45,836,800	\$ 43,742,453
Freight	5,115,020	4,751,089
Utilities	221,848	202,893
Warehouse Occupancy Costs	147,381	176,899
Depreciation	483,809	473,867
	<u>\$ 51,804,858</u>	<u>\$ 49,347,201</u>

<u>CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES:</u>		
Salaries and Wages	\$ 7,938,866	\$ 7,457,473
Payroll Taxes and Employee Benefits	2,349,049	2,125,979
Advertising and Business Promotion	953,056	1,058,185
Certification Fees	141,615	132,328
Charitable Contributions	110,497	444,551
Computer Expense and Service	-	92,832
Consulting Expense	48,982	291,355
Contracted Services	996,389	132,391
Credit Card Service Fees	411,168	359,575
General and Administrative	317,414	296,082
Insurance	204,038	209,450
Office Expense	260,220	179,509
Patronage Rebates	176,905	949,511
Payroll Processing Fees	51,910	50,287
Postage	30,033	23,467
Professional Fees	10,676	128,604
Real Estate Taxes	110,284	111,279
Rent	918,055	1,050,862
Repairs and Maintenance	715,135	454,536
Selling Expenses	396,022	499,418
Telephone	158,391	149,958
Utilities	168,778	196,658
Amortization	405	405
Depreciation	721,139	642,757
	<u>\$ 17,189,027</u>	<u>\$ 17,037,452</u>

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