

ESCARPMENT BIOSPHERE CONSERVANCY INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2017

**ESCARPMENT BIOSPHERE CONSERVANCY INC.
DECEMBER 31, 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Escarpment Biosphere Conservancy Inc.

I have audited the accompanying financial statements of Escarpment Biosphere Conservancy Inc. which comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards for not-for-profit organizations. Those standards require that I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of Escarpment Biosphere Conservancy Inc. as at December 31, 2017 and the results of its operations and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.



JEFFREY D. MILGRAM PROFESSIONAL CORPORATION
Authorized to practise public accounting by
The Institute of Chartered Professional Accountants of Ontario

TORONTO, ONTARIO
JUNE 27, 2018

ESCARPMENT BIOSPHERE CONSERVANCY INC.

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
		(Note 13)
<u>ASSETS</u>		
CURRENT		
Cash	134,643	52,591
Short term investments (Note 3)	101,308	234,838
Accounts receivable (Note 8)	17,556	6,500
Government excise rebate receivable	14,767	29,033
Prepaid expenses	<u>27,071</u>	<u>5,733</u>
	295,345	328,695
LONG TERM INVESTMENTS (Note 4)	242,087	65,502
CONSERVATION LANDS AND AGREEMENTS (Note 5)	18,507,062	17,183,324
CAPITAL ASSETS (Note 6)	<u>65,830</u>	<u>47,250</u>
	<u>19,110,324</u>	<u>17,624,771</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT		
Accounts payable and accrued liabilities	61,342	132,747
Government remittance payable	211	844
Mortgage payable – short term portion (Note 7)	<u>10,000</u>	<u>10,000</u>
	71,553	143,591
LONG-TERM		
Mortgage payable (Note 7)	-	10,000
DEFERRED		
Deferred revenue pertaining to capital grant (Note 8)	18,900	-
CONTINGENCY (Note 9)	<u>-</u>	<u>-</u>
	90,453	153,591
NET ASSETS		
Unrestricted net assets	<u>19,019,871</u>	<u>17,471,180</u>
	<u>19,110,324</u>	<u>17,624,771</u>

APPROVED ON BEHALF OF THE BOARD:

_____ DIRECTOR

_____ DATE

_____ DIRECTOR

_____ DATE

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

ESCARPMENT BIOSPHERE CONSERVANCY INC.
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u> \$	<u>2016</u> \$ (Note 13)
Balance, beginning of year, as previously stated	17,388,856	14,978,515
Prior period adjustment (Note 13)	<u>82,324</u>	<u>-</u>
Balance, beginning of year, as restated	17,471,180	14,978,515
Excess revenues over expenses for the year	<u>1,548,691</u>	<u>2,492,665</u>
Balance, end of year	<u>19,019,871</u>	<u>17,471,180</u>

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

ESCARPMENT BIOSPHERE CONSERVANCY INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
		(Note 13)
REVENUES		
Grants and donations:		
Grants – foundation and other	366,769	94,511
Land donations and easements (Note 11)	1,215,000	2,457,800
Donations and membership (Note 11)	<u>81,410</u>	<u>56,121</u>
	<u>1,663,179</u>	<u>2,608,432</u>
Investment income:		
Interest and dividend income	463	7,120
Investment income – realized gain on investments	19,626	5,043
Investment income – unrealized loss on investments	(480)	-
Foreign exchange	<u>4,007</u>	<u>17,553</u>
	<u>23,616</u>	<u>29,716</u>
Earned and other revenues:		
Government excise tax rebate	17,876	10,994
Rental and right of way income	15,127	14,632
Telecom and carbon revenues	105,001	-
Other	<u>518</u>	<u>5,350</u>
	<u>138,522</u>	<u>30,976</u>
	<u>1,825,317</u>	<u>2,669,124</u>
EXPENSES		
Acquisition expenses	-	5,630
Bank charges and interests	743	134
Depreciation	12,963	3,503
Education	1,955	2,520
Freer Point operations	1,469	1,621
Fundraising and development	3,742	1,489
Management contract services (Note 10)	50,000	50,000
Office and general	9,398	9,356
Outreach	13,166	14,511
Professional fees	10,437	8,730
Property management	33,162	12,747
Property taxes	30,596	8,264
Rent (Note 9)	12,000	12,000
Telecom and carbon expenses	50,655	-
Travel	11,619	9,035
Wages and benefits	<u>34,721</u>	<u>36,919</u>
	<u>276,626</u>	<u>176,459</u>
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	<u>1,548,691</u>	<u>2,492,665</u>

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

ESCARPMENT BIOSPHERE CONSERVANCY INC.
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
	\$	\$
FUNDS PROVIDED BY:		(Note 13)
OPERATING ACTIVITIES		
Operating activities		
Excess of revenue over expenses	1,548,691	2,492,665
Adjustments:		
Depreciation	12,963	3,503
Fair market valuation of investments – unrealized (gain) loss	480	(31,608)
Real property acquisitions by donation	<u>(1,215,000)</u>	<u>(2,442,000)</u>
	347,134	(22,560)
Accounts receivable	(11,056)	(6,500)
Government rebate receivable	14,266	(10,994)
Prepaid expenses	(21,338)	(5,733)
Accounts payable and accrued liabilities	(72,038)	(2,890)
Deferred revenue	<u>18,900</u>	<u>-</u>
NET FUNDS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>275,868</u>	<u>(3,557)</u>
INVESTING ACTIVITIES		
Additions to capital assets	(31,543)	-
Acquisition costs on real property	(48,738)	(82,324)
Real property acquisitions by purchase	(60,000)	-
Short-term investments	133,530	48,019
Long-term investments	<u>(177,065)</u>	<u>-</u>
NET FUNDS (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(183,816)</u>	<u>(34,305)</u>
FINANCING ACTIVITIES		
Repayment of mortgage payable	<u>(10,000)</u>	<u>(10,000)</u>
NET FUNDS USED BY FINANCING ACTIVITIES	<u>(10,000)</u>	<u>(10,000)</u>
INCREASE (DECREASE) IN CASH	82,052	(47,862)
CASH, beginning of year	<u>52,591</u>	<u>100,453</u>
CASH, end of year	<u>134,643</u>	<u>52,591</u>

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

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. Organization

Operations:

The Escarpment Biosphere Conservancy Inc. (EBC) was incorporated, without share capital, by letters patent in the Province of Ontario, and has operated since March 17, 1997 as a registered charitable organization which is exempt from income tax in Canada under Section 149(1)(f) of the Income Tax Act of Canada.

As a charity, the primary sources of revenue are contributions from the public, including gifts of land, membership revenues and grants from both government and other organizations. These resources are used to carry out the Organization's mandate as described below. EBC continually seeks funding to continue its conservation activities and to meet its ongoing administrative requirements and to fund on-going costs associated with the ownership, maintenance and up-keep of such conservation assets.

Purpose:

The Escarpment Biosphere Conservancy Inc.'s mission is:

- To establish, maintain and manage a system of nature reserves in the area of the Niagara Escarpment (including the Niagara Escarpment World Biosphere Reserve), including the maintenance of physical features of scientific and/or ecological, cultural, historic or scenic interest; to maintain, enhance or restore areas of native species or natural habitat: and to encourage and support scientific research and educational services related thereto
- To educate the public about conservation and preservation of the landscape, ecology and wildlife of the Niagara Escarpment partly through providing low impact, ecologically sustainable recreational opportunities which complement and do not substantially conflict with this objective.

Accounting Framework

The Organization prepares its financial statements in accordance with the Institute of Chartered Professional Accountant's (CPA, Canada) Handbook, Part III, Canadian accounting standards for not-for-profit organizations (ASNPO).

2. Significant Accounting Policies

The accounting policies of the organization are in accordance with Canadian accounting standards for not-for-profit organizations applied on a basis consistent with that of the preceding year. Outlined below are those policies considered particularly significant.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies – Continued

Basis of Accounting

These financial statements were prepared using the accrual basis of accounting. The accrual basis recognizes revenues as they are earned and measurable; expenses are recognized as they are incurred and measurable as a result of receipts of goods and services and the creation of legal obligation to pay.

Foreign Currencies

Accounts in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities have been translated at the year end exchange rate. Revenues and expenditures have been translated at either the average rate of exchange during the year or the rate in existence on the date of the transaction.

Foreign exchange gains and losses on current monetary assets and liabilities are included in the determination of earnings.

Cash and Cash Equivalents

Bank and equivalents include cash on hand, current bank deposits and investment deposits with a maturity of 90 days or less from the year end date.

Investments

Mutual funds and investments with maturities of greater than 90 days but less than one year from the year end date are classified as short-term investments. Due to the short period held and that maturity is reached in under 365 days, management has estimated that the fair value of these financial instruments approximates their stated value plus accrued interest to the year end date, as applicable.

Those investments whose maturity exceeds 365 days, along with equity investment in publicly traded shares, are classified as long-term.

Capital Assets

Capital assets consist of both real and depreciable assets. Those assets owned by the Organization that pertain to real property holdings, are carried at either purchased or donated cost, supported by independent appraisal of value, as applicable, with no requirement to provide for amortization. Depreciable assets and are amortized over the estimated useful life as follows:

Solar generator equipment	5% straight line
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ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies – Continued

Impairment of Investments and Capital Assets

The Organization’s long-term assets are comprised of capital assets and long-term investments. The Organization recognizes an impairment loss for a long-term asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its fair value. The Organization has recorded any impairment charge for the current fiscal years as detailed in Note 4.

Conservation Lands and Agreements

A conservation covenant (“agreement”) is a voluntary, written agreement between a landowner and one or more covenant holders. It can cover all or part of a parcel of property. In the agreement, the landowner promises to protect the land or features on the land in ways that are specified in the agreement. The conservation agreement is registered against title to the property in the Ontario land Title Register under the 1990 Land Titles Act as amended. A conservation agreement registered under this section may be modified by the holder of the charge and the owner of the land charged or discharged by the holder of the charge.

Once registered on title, that agreement runs with the title and binds all future owners. Conservation lands and agreements are either purchased or donated. Purchased conservation lands and agreements are recorded at cost when title is transferred. Contributed conservation lands and agreements are recorded at fair market value when title is transferred. Landowners may receive an income tax receipt for the donation of a conservation agreement to a registered charity. The value of the receipt is determined by a certified land appraiser and usually represents the difference in the appraised value of the property before and after the conservation restrictions are in place. An agreement’s value is measured as the difference between the fair value of the property before and after the agreement is registered.

The contributions are recorded as revenue (“land donations and easements”) and also as an asset (“conservation lands and agreements”). Properties transferred to others are recorded as a reduction of conservation land and agreements and net assets invested in conservation agreements.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies – Continued

Revenue Recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenues generated from land rights, rentals, harvesting, grants and general contributions are recognized as revenue as received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Interest and memberships are recognized as earned.

Contributed Property and Services

Contributions in kind are recognized as revenue when received or receivable. Donations of materials and supplies are valued by the Organization and are recorded in the accounts based on best estimate of value.

Contributions in kind of real property are booked at appraised value which is independently determined at the time of title transfer.

The work of the Organization is also heavily dependent on the voluntary service of its members. Since these services are not normally purchased by the Organization, and because of the difficulty of determining their fair value, the value of donated volunteer services is not recognized in these statements.

Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

During the year management booked estimates to the accounts pertaining to the prepaid expenses, the valuation of certain gifts in kind and some payables and accrued liabilities.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies – Continued

Financial Assets and Financial Liabilities

(i) Measurement of financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost. Changes in fair value are recognized in the statements of operations in the period incurred. Financial assets measured at amortized cost include cash and cash equivalents, accounts receivable and short-term income investments. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and deferred revenues.

(ii) Impairment

At the end of each reporting period, the Organization assesses whether there are any indications that a financial asset measured at amortized cost may be impaired. Objective evidence of impairment includes observable data that comes to the attention of the Organization, including but not limited to the following events: significant financial difficulty of the issuer; a breach of contract, bankruptcy or other financial indicators indicating distress relating to the item valued.

When there is an indication of impairment, the Organization determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the financial asset.

(ii) Impairment - Continued

When the Organization identifies a significant adverse change in the expected timing or amount of future cash flows from a financial asset, it reduces the carrying amount of the asset to the highest of the following:

- a) the present value of the cash flows expected to be generated by holding the asset discounted using a current market rate of interest appropriate to the asset;
- b) the amount that could be realized by selling the asset at the statement of financial position date; and
- c) the amount the Organization expects to realize by exercising its rights to any collection action less the costs necessary to exercise those actions.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

2. Significant Accounting Policies – Continued

Financial Assets and Financial Liabilities – Continued

(ii) Impairment – Continued

When the Organization determines an adjustment to the carrying value is required, the carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the reduction is recognized as an impairment loss in the statements of operations. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent of the improvement, directly or by adjusting the allowance account. The amount of the reversal is recognized in the statements of operations in the period the reversal occurs.

(iii) Transaction costs

Transaction costs are recognized in the statements of operations in the period incurred, except for financial instruments that will be subsequently measured at amortized cost. Transaction costs associated with the acquisition and disposal of fixed income investments are capitalized and are included in the acquisition costs or reduce proceeds on disposal. Investment management fees associated with managing of the Organization's portfolio investment holdings are expensed as incurred.

3. Short-term Investments

Included in short term investment holdings of the Organization are the following investments:

	<u>Face</u> <u>Value</u>	<u>Fair</u> <u>Value</u>
	\$	\$
Mutual funds – Bank of Montreal	37,867	37,867
Mutual funds – Canadian Imperial Bank of Commerce	<u>63,441</u>	<u>63,441</u>
	<u>101,308</u>	<u>101,308</u>

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

4. Long-term Investments

The long-term investments include the following holdings:

	<u>Face Value</u> \$	<u>Fair Value</u> \$
225 units of Northern Star Hedger Fund I	245,912	1
Artwork – 24 pieces	1	1
Goodwill – Escarpment Telecom	1	1
Interest in life insurance policy	164,012	164,012
Canadian equities	<u>49,912</u>	<u>78,072</u>
	<u>459,838</u>	<u>242,087</u>

Northern Star Hedger Fund I: These hedge fund units were initially donated to a related charitable organization to Escarpment Biosphere Conservancy Inc. (Note 10) with an original assessed value of \$245,912; however, the most recent issued financial statements of the hedge fund carried a “Denial of Opinion” audit report based on both scope limitations and questionable recoveries, realization and fair valuation of the fund’s assets. As the value of the hedge fund units has been called into question, the Organization has recorded an impairment in value of the contribution received and has accordingly, booked the investment and contribution at a nominal value of \$1.

Art Collection: The art collection represents 24 pieces of artwork donated from a related charitable organization (Note 10). The value of the works of art has been excluded from the statement of financial position except for a nominal value of \$1. Accessions of art for the collection, both purchased and those gifted, are expensed in the year of acquisition. Gifted works of art are recorded as revenue at values based on appraisals by independent appraisers for valuations in excess of \$1,000 or by management for items of lesser value, if known or assessable. As a collection of art, this asset is not subject to amortization as works of art may have cultural and historical value that is worth preserving and the Organization has the commitment and resources to protect and preserve them.

Interest in life insurance policy: This asset, initially donated to a related charitable organization to Escarpment Biosphere Conservancy Inc. (Note 10) with an original assessed value of \$164,012; has been listed as an asset at the last actuarially assessed value. Management has estimated, based on the age and health of the insured, that no material change in the value of the asset has occurred since the last valuation date.

Goodwill – Escarpment Telecom: The goodwill intangible asset related to the marketing and cash flow of Escarpment Telecom was donated to the Organization from a related charitable organization to Escarpment Biosphere Conservancy Inc. (Note 10) with an assigned estimated value of \$1.

Canadian equities: Equities held by the Organization are stated at fair value as represented by their trading value as quoted by the Canadian stock exchange on which the equity is listed on December 31, 2017.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

5. Conservation Lands and Agreements

The Organization holds title to 162 Nature Reserves with over 12,500 acres of land in Ontario with an aggregated cost of \$18,507,062 which are held for purposes of conservation and education.

	<u>2017</u>	<u>2016</u>
	\$	\$
		(Note 13)
Land owned in fee simple	13,982,793	12,767,793
Conservation agreements	4,393,207	4,333,207
Land acquisition costs	<u>131,062</u>	<u>82,324</u>
	<u>18,507,062</u>	<u>17,183,324</u>

6. Capital Assets

	<u>2017</u>			<u>2016</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Solar generator equipment	70,000	26,250	43,750	47,250
Solar panel installation	<u>31,543</u>	<u>9,463</u>	<u>22,080</u>	-
	<u>101,543</u>	<u>35,713</u>	<u>65,830</u>	<u>47,250</u>

7. Mortgage Payable

During the 2013 year end, the Organization initiated an agreement whereby it purchased a real property in the Municipality of Central Manitoulin, Ontario, Canada (Lot 8, Concession 14). The purchase agreement stipulates an acquisition cost of \$116,000 for the property with a vendor take-back mortgage secured by the property purchased. The mortgage bears interest at 0.0% per annum with annual principal payment of \$10,000, due on annually on September 1st to 2018.

Mortgage payments due in each of the next fiscal year is as follows:

2018 \$10,000

8. Deferred Capital Grants

The Organization received a capital grant in the 2017 fiscal year pertaining to the solar panel installation (Note 6). The capital grant was deferred and is recognized as revenue at the same rate as the capital assets is expensed through depreciation to the statement of operations.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

9. Contingency

The Organization has initiated correspondence with an existing landowner who is not adhering to certain covenants regarding the use and care of a property subject to a preservation agreement. The Board has interest in proceeding with a lien on the property to cover the possibility of future clean-up costs. At the present time, the Organization is unable to determine the likely outcome of the proceedings and is unable to quantify the future costs, if any, to the Organization as a result of the actions taken by the landowner.

10. Related Party Transactions

During the year, the Organization had related party transactions with the following parties;

1. The Escarpment Biosphere Conservancy Inc.'s Executive Director and co-founder of the organization, exercises significant influence over the operations of EBC. All transactions with the Executive Director are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

During the year, the following transactions took place between the Organization and the Executive Director:

	<u>2017</u>	<u>2016</u>
	\$	\$
Rent occupancy costs	<u>12,000</u>	<u>12,000</u>
Management contract services	<u>50,000</u>	<u>50,000</u>
Accounts receivable	<u>17,556</u>	<u>6,500</u>
Accounts payable	<u>40,770</u>	<u>98,917</u>

2. During the 2017 fiscal year, a related charitable organization, the Biosphere Conservation Foundation Inc. contributed the following assets to the Escarpment Biosphere Conservancy Inc. based on the historic values available or as estimated by management pursuant to an agreement between the two organizations dated December 27, 2017.

1. 225 Units of Northern Star Hedge Fund I;
2. 24 pieces of art work;
3. Cash and current bank account balances;
4. "Goodwill" and intangibles of Escarpment Telecom;
5. Assignment of life policy

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

11. Donations in Kind

During the year the Organization received the following contributions in kind:

	<u>2017</u>	<u>2016</u>
	\$	\$
Real property acquisitions by donation	<u>1,215,000</u>	<u>2,442,000</u>
Contribution of publicly traded shares	<u>-</u>	<u>6,092</u>

12. Risk

Liquidity

The Organization manages its liquidity risk by monitoring actual and projected cash flows, from general operations and fundraising events, to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price of the investments held. Market risk comprises three types of risk; currency risk, interest risk, and price risk.

(i) Currency Risk

As the organization operates in both United States and Canadian dollars, management and the Board have to monitor and address the Organization's exposure to currency risk in the year. As at the year end date, the Organization is subject to currency risk on the following holdings in United States dollars converted to Canadian currency at year end for financial statement presentation purposes:

	<u>2017</u>	<u>2016</u>
	\$	\$
Cash and cash equivalents	<u>12,936</u>	<u>224</u>
Investments	<u>6,260</u>	<u>73,182</u>

(ii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future cash flows or the fair value of financial instruments.

Interest rate risk arises when the Organization invests in interest-bearing financial instruments. The organization is exposed to the risk that the value of such financial instruments will fluctuate due to the prevailing levels of market interest rates.

ESCARPMENT BIOSPHERE CONSERVANCY INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

12. Risk – Continued

(ii) Interest Rate Risk - Continued

As at December 31, 2017, the Organization cash and investment portfolio includes amounts on deposit with financial institutions that earn interest at market rates. The EBC manages its exposure to the interest rate risk on its cash and short-term investments by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rate of interest on cash do not have a significant impact on the Organization's results of operations.

(iii) Price Risk

Price risk refers to the risk that the fair market value of the financial instruments or future cash flows associated with the instruments held will fluctuate because of changes in the market prices of the equity positions held, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all similar instruments in the market. The Organization holds several equity positions as part of its long-term investment portfolio and is therefore subject to price risk on its holdings; however, management estimates that changes in the market price of the equities held do not pose a significant risk for the Organization.

Other Risks

It is management's opinion that the Organization is not exposed to significant credit arising from the financial instruments held as at its year end date.

13. Prior Period Adjustment and Comparative Figures

Previous to the current year end, the Organization did not capitalize the acquisition costs incurred on real properties. A retroactive correction of \$82,324 has been booked to the 2017 accounts to reflect the capitalization of land acquisition costs that occurred in fiscal 2016. The result of this change is a decrease to the acquisition costs on the statement of operation for 2016 and an increase in the valuation of the land assets in the same amount.

In addition, certain comparative figures have been reclassified to conform to the current year's presentation format; however, overall operating results have not been affected by these reclassifications.