

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2018**

**ESCARPMENT BIOSPHERE CONSERVANCY INC.  
DECEMBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Escarpment Biosphere Conservancy Inc.

### Opinion

I have audited the financial statements Escarpment Biosphere Conservancy Inc. which comprises the statement of financial position as at December 31, 2018, and the statements of operations, and cash flows for the year then ending, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Escarpment Biosphere Conservancy Inc. as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Organization in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of Management and Those Charged with Governance 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.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jeffrey D. Milgram, CPA, CA, LPA.

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

TORONTO, ONTARIO  
MAY XX, 2019

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
	\$	\$
		(Note 12)
<u><b>ASSETS</b></u>		
<b>CURRENT</b>		
Cash	75,870	134,643
Short term investments (Note 3)	222,440	101,308
Accounts receivable (Note 9)	105,043	17,556
Government excise rebate receivable	-	14,767
Prepaid expenses	<u>25,491</u>	<u>27,071</u>
	428,844	295,345
<b>LONG TERM INVESTMENTS (Note 4)</b>	<b>309,648</b>	<b>323,987</b>
<b>CONSERVATION LANDS AND AGREEMENTS (Note 5)</b>	<b>19,331,500</b>	<b>18,376,000</b>
<b>CAPITAL ASSETS (Note 6)</b>	<u><b>55,706</b></u>	<u><b>65,830</b></u>
	<u><b>20,125,698</b></u>	<u><b>19,061,162</b></u>



**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Acquisition</u>	<u>Capital</u>	<u>Stewardship</u>	<u>Operating</u>	<u>2018</u>	<u>2017</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
						(Note 12)
Fund balance beginning of year - as originally stated,	<u>(4,735)</u>	<u>18,391,000</u>	<u>10,506</u>	<u>623,100</u>	<u>19,019,871</u>	<u>17,388,856</u>
Prior period adjustment (Note 12)	<u>(131,062)</u>	-	<u>37,092</u>	<u>44,808</u>	<u>(49,162)</u>	-
Fund balance beginning of year - as restated	<u>(135,797)</u>	<u>18,391,000</u>	<u>47,598</u>	<u>667,908</u>	<u>18,970,709</u>	<u>17,388,856</u>
Excess of revenue over expense (expense over revenue)	(98,129)	983,575	(51,870)	235,460	1,069,036	1,581,853
Transfers between funds support of operations	<u>222,235</u>	<u>(26,075)</u>	<u>35,510</u>	<u>(231,670)</u>	-	-
Net increase (decrease) During the year	<u>124,106</u>	<u>957,500</u>	<u>(16,360)</u>	<u>3,790</u>	<u>1,069,036</u>	-
Fund balance end of year	<u>(11,691)</u>	<u>19,348,500</u>	<u>31,238</u>	<u>671,698</u>	<u>20,039,745</u>	<u>18,970,709</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, 2018**

	<u>Acquisition</u>	<u>Capital</u>	<u>Stewardship</u>	<u>Operating</u>	<u>2018</u>	<u>2017</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>						
<b>Grants and donations:</b>						
Grants- foundations and other	8,737	28,075	25,000	83,858	145,670	366,769
Land donations and easements (Note 10)	-	955,500	-	-	955,500	1,215,000
Donations (Note 10)	-	-	-	186,088	186,088	163,310
<b>Investment income:</b>						
Interest and dividend income	-	-	-	4,516	4,516	463
Realized gain (loss) on investments	-	-	-	(5,701)	(5,701)	19,626
Unrealized gain (loss) on investments	-	-	-	(9,751)	(9,751)	(480)
Foreign exchange	-	-	-	1,238	1,238	4,007
<b>Earned income:</b>						
Government excise tax rebate	-	-	-	(2,822)	(2,822)	17,876
Rental and right of way income	-	-	-	14,773	14,773	15,127
Telecom and carbon credit sales	-	-	-	126,823	126,823	105,001
Other	-	-	-	1,195	1,195	518
	<u>8,737</u>	<u>983,575</u>	<u>25,000</u>	<u>400,217</u>	<u>1,417,529</u>	<u>1,907,217</u>
<b>EXPENSES</b>						
Acquisition expenses	87,545	-	-	-	87,545	48,738
Alvar Bay operations	-	-	-	4,918	4,918	-
Bank charges and interests	-	-	-	1,097	1,097	743
Depreciation	-	-	-	10,124	10,124	12,963
Education	-	-	-	2,047	2,047	1,955
Freer Point operations	-	-	-	1,661	1,661	1,469
Fundraising and development	-	-	-	1,511	1,511	3,742
Management contract services	-	-	-	53,333	53,333	50,000
Office and general	-	-	-	11,101	11,101	9,398
Outreach	-	-	-	16,921	16,921	13,166
Professional fees	-	-	-	14,455	14,455	10,437
Property management	-	-	65,929	-	65,929	33,162
Property taxes	-	-	10,941	-	10,941	30,596
Rent (Note 9)	-	-	-	12,000	12,000	12,000
Telecom and carbon expenses	-	-	-	5,316	5,316	50,655
Travel	19,321	-	-	-	19,321	11,619
Wages and benefits	-	-	-	30,273	30,273	34,721
	<u>106,866</u>	<u>-</u>	<u>76,870</u>	<u>164,757</u>	<u>348,493</u>	<u>325,364</u>
Excess of revenue over expense for the year	<u>(98,129)</u>	<u>983,575</u>	<u>(51,870)</u>	<u>235,460</u>	<u>1,069,036</u>	<u>1,581,853</u>

(Note 12)

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, 2018**

	<u>2018</u>	<u>2017</u>
	\$	\$
		(Note 12)
<b>FUNDS PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Operating activities		
Excess of revenue over expenses	1,069,036	1,581,853
Adjustments:		
Depreciation	10,124	12,963
Deferred revenue	(5,670)	-
Fair market valuation of investments – unrealized (gain) loss	(8,570)	480
Real property acquisitions by donation	<u>(955,500)</u>	<u>(1,215,000)</u>
	109,420	380,296
Accounts receivable	(87,487)	(11,056)
Government excise tax receivable/payable	32,650	14,266
Prepaid expenses	1,580	(21,338)
Accounts payable and accrued liabilities	6,713	(72,249)
Deferred revenue	<u>-</u>	<u>18,900</u>
<b>NET FUNDS PROVIDED BY OPERATING ACTIVITIES</b>	<u>62,876</u>	<u>309,030</u>
<b>INVESTING ACTIVITIES</b>		
Additions to capital assets	-	(31,543)
Real property acquisitions by purchase	-	(60,000)
Short-term investments	(67,829)	133,530
Long-term investments	<u>(43,820)</u>	<u>(258,965)</u>
<b>NET FUNDS USED BY INVESTING ACTIVITIES</b>	<u>(111,649)</u>	<u>(216,978)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of mortgage payable	<u>(10,000)</u>	<u>(10,000)</u>
<b>NET FUNDS USED BY FINANCING ACTIVITIES</b>	<u>(10,000)</u>	<u>(10,000)</u>
<b>INCREASE (DECREASE) IN CASH</b>	(58,773)	82,052
<b>CASH, beginning of year</b>	<u>134,643</u>	<u>52,591</u>
<b>CASH, end of year</b>	<u>75,870</u>	<u>134,643</u>

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

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**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).

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, 2018

2. Significant Accounting Policies – ContinuedMethod of Accounting

The organization follows the fund method of accounting for contributions. All funds are discretionary and are increased or decreased at the discretion of management.

Acquisition Fund

The fund accounts for contributions designated or allotted by management for the purchase of future land purchases and easements. The fund has been set up in support of the costs of acquisition, such as surveys, appraisals, legal fees and transfer of title costs.

Capital Fund

The fund accounts for all current land holdings less any liability obligations held against those lands and easements.

Stewardship Fund

The fund accounts for contributions designated or allotted by management for the continued maintenance of land inventory held in the Capital fund. The fund has been set up in support of the costs such as insurance, realty taxes, and ongoing maintenance.

Operating Fund

The Operating Fund accounts for all other operations of the Organization not specifically designated or allotted by management as being covered by the above mentioned funds.

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.

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**2. Significant Accounting Policies – Continued**

**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.

**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 follow:

Solar generator equipment	5% straight line
Solar panels	30% declining balance

## ESCARPMENT BIOSPHERE CONSERVANCY INC.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

2. Significant Accounting Policies – ContinuedImpairment 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.

Revenue Recognition

The Organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year and are allocated to the appropriate fund. Unrestricted contributions are recognized as revenue in the Operating Fund 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.

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**2. Significant Accounting Policies – Continued**

**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.

**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.

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**2. Significant Accounting Policies – Continued**

**Financial Assets and Financial Liabilities – Continued**

**(ii) Impairment – Continued**

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.

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.

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**2. Significant Accounting Policies – Continued**

**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.

**Income Tax Status**

The organization is exempt from income tax in Canada as a registered charity under Section 149(1)(f) of the Income Tax Act of Canada.

**3. Short-term Investments**

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

	<u>Face Value</u>	<u>Fair Value</u>
	\$	\$
Mutual funds – Bank of Montreal	38,384	37,092
Mutual funds – Canadian Imperial Bank of Commerce	<u>180,142</u>	<u>185,348</u>
	<u>218,526</u>	<u>222,440</u>

**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	164,012	1
Artwork – 24 pieces	1	1
Goodwill – Escarpment Telecom	1	1
Interest in life insurance policy	245,912	245,912
Canadian equities	<u>43,820</u>	<u>63,733</u>
	<u>459,838</u>	<u>309,648</u>



**ESCARPMENT BIOSPHERE CONSERVANCY INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**4. Long-term Investments - Continued**

**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 \$164,012; 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, 2018.

**ESCARPMENT BIOSPHERE CONSERVANCY INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**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>2018</u>	<u>2017</u>
	\$	\$
		(Note 13)
Land owned in fee simple	14,625,793	13,982,793
Conservation agreements	<u>4,705,707</u>	<u>4,393,207</u>
	<u>19,331,500</u>	<u>18,376,000</u>

**6. Capital Assets**

	<u>2018</u>			<u>2017</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
	\$	\$	\$	\$
Solar generator equipment	70,000	29,750	40,250	43,750
Solar panel installation	<u>31,543</u>	<u>16,087</u>	<u>15,456</u>	<u>22,080</u>
	<u>101,543</u>	<u>45,837</u>	<u>55,706</u>	<u>65,830</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 bore interest at 0.0% per annum with annual principal payment of \$10,000, due on annually on September 1<sup>st</sup> to 2018.

The final payment was made in fiscal 2018 and the mortgage discharged.

**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.

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**9. 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>2018</u>	<u>2017</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>6,500</u>	<u>17,556</u>
Accounts payable	<u>17,361</u>	<u>40,770</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

**10. Donations in Kind**

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

	<u>2018</u>	<u>2017</u>
	\$	\$
Real property acquisitions by donation	<u>955,500</u>	<u>1,215,000</u>
Contribution of publicly traded shares	<u>105,716</u>	<u>-</u>

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**11. 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>2018</u>	<u>2017</u>
	\$	\$
Cash and cash equivalents	<u>10,291</u>	<u>12,936</u>
Investments	<u>4,256</u>	<u>6,260</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.

As at December 31, 2018, 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.

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**11. Risk - Continued**

**(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.

**(iv) 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.

**12. Prior Period Adjustment and Comparative Figures**

Effective 2018, the Organization commenced accounting for its operations on a fund basis. A retroactive correction of \$82,324 previously booked to the 2017 year to account for the capitalization of land acquisition costs that occurred in fiscal 2016 and a further \$48,738 booked in fiscal 2017, have been reversed as these costs have now been allotted to the newly established Acquisition Fund. An additional adjustment of \$81,900 has been applied to the past valuation of the donated life insurance policy as described in Note 4.

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.