



ISLAND CORRIDOR FOUNDATION

Financial Statements

Year Ended December 31, 2017

ISLAND CORRIDOR FOUNDATION
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Year Ended December 31, 2017

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INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

To the Members of Island Corridor Foundation

We have reviewed the accompanying financial statements of Island Corridor Foundation that comprise the statement of financial position as at December 31, 2017 and the statements of operations, changes in net assets and 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.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

(continues)

Independent Practitioner's Review Engagement Report to the Members of Island Corridor Foundation *(continued)*

Qualified Conclusion

Based on our review, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of Island Corridor Foundation as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with the Canadian accounting standards for not-for-profit organizations.

Other Matter

Without modifying our conclusion, we draw attention to Note 2 to the financial statements which indicates that as at December 31, 2017 uncertainty exists with respect to the Foundations ability to obtain future funding to meet one of its mandates of continuing to develop railway assets. These conditions along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Foundations' ability to continue as a going concern.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

Nanaimo, BC
October 25, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

ISLAND CORRIDOR FOUNDATION
Statement of Financial Position
December 31, 2017

	Operating Fund	Capital Fund	2017	2016
ASSETS				
CURRENT				
Cash	\$ 415,323	\$ 5,143	\$ 420,466	\$ 372,227
Externally restricted cash <i>(Note 5)</i>	-	26,870	26,870	27,126
Accounts receivable	52,924	-	52,924	70,548
Goods and services tax recoverable	-	-	-	1,021
Prepaid expenses	6,781	-	6,781	7,261
	475,028	32,013	507,041	478,183
TANGIBLE CAPITAL ASSETS <i>(Net of accumulated amortization) (Note 6)</i>	-	329,376,111	329,376,111	332,905,917
FUNDS HELD IN TRUST <i>(Note 7)</i>	23,351	-	23,351	10,923
DEFERRED LEASING COSTS <i>(Note 8)</i>	12,583	-	12,583	15,443
	\$ 510,962	\$ 329,408,124	\$ 329,919,086	\$ 333,410,466

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Statement of Financial Position

December 31, 2017

	Operating Fund	Capital Fund	2017	2016
LIABILITIES AND NET ASSETS				
CURRENT				
Accounts payable	\$ 27,055	\$ -	\$ 27,055	\$ 28,187
Callable debt due in one year (Note 9)	-	46,721	46,721	44,691
Current portion of term debt (Note 10)	175,000	-	175,000	175,000
Accrued interest payable (Note 10)	62,710	3,309	66,019	59,155
Goods and services tax payable	3,265	-	3,265	-
Deferred revenue (Note 11)	117,658	-	117,658	127,654
	385,688	50,030	435,718	434,687
Callable debt due thereafter (Note 9)	-	847,073	847,073	892,810
	385,688	897,103	1,282,791	1,327,497
DEFERRED REVENUE (Note 11)	65,528	-	65,528	59,775
	451,216	897,103	1,348,319	1,387,272
NET ASSETS	59,746	328,511,021	328,570,767	332,023,194
	\$ 510,962	\$ 329,408,124	\$ 329,919,086	\$ 333,410,466

CONTINGENT LIABILITY (Note 13)

COMMITMENTS (Note 15)

ON BEHALF OF THE BOARD

_____ Director

_____ Director

ISLAND CORRIDOR FOUNDATION

Statement of Operations

Year Ended December 31, 2017

	Operating Fund	Capital Fund	Total 2017	Total 2016
Revenue				
Crossings, leases and fees (Note 11)	\$ 190,903	\$ -	\$ 190,903	\$ 390,773
Donations and grants (Notes 5, 14)	329,940	24	329,964	344,908
Rental Income (Note 12)	64,845	-	64,845	93,565
Interest	163	-	163	117
	<u>585,851</u>	<u>24</u>	<u>585,875</u>	<u>829,363</u>
EXPENSES				
Audit and accounting fees	18,980	-	18,980	20,284
Bad debts	11,415	-	11,415	3,992
Board expenses	18,743	-	18,743	17,400
Communications	15,732	270	16,002	20,523
Consulting fees and engineering	16,614	-	16,614	41,355
Insurance	30,256	-	30,256	23,326
Interest and bank charges	1,917	938	2,855	1,587
Interest on short term debt	6,475	42,183	48,658	49,340
Legal fees	46,073	-	46,073	105,355
Management and administration services (Note 15)	174,055	-	174,055	180,666
Office	6,916	-	6,916	14,688
Property taxes and utility rates	29,585	-	29,585	68,538
Repairs and maintenance - Alberni sub	21,104	-	21,104	23,656
Repairs and maintenance - other	10,243	-	10,243	22,571
Salaries and wages	53,349	-	53,349	67,113
Travel	3,648	-	3,648	5,884
	<u>465,105</u>	<u>43,391</u>	<u>508,496</u>	<u>666,278</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS BEFORE AMORTIZATION	120,746	(43,367)	77,379	163,085
Amortization	-	(3,529,806)	(3,529,806)	(3,529,405)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ 120,746</u>	<u>\$ (3,573,173)</u>	<u>\$ (3,452,427)</u>	<u>\$ (3,366,320)</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Statement of Changes in Net Assets

Year Ended December 31, 2017

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>2017</u>	<u>2016</u>
NET ASSETS - BEGINNING OF YEAR	\$ 23,182	\$ 332,000,012	\$ 332,023,194	\$ 335,389,514
Excess (deficiency) of revenue over expenses	120,746	(3,573,173)	(3,452,427)	(3,366,320)
Interfund loans and repayment of debt	(84,182)	84,182	-	-
NET ASSETS - END OF YEAR	<u>\$ 59,746</u>	<u>\$ 328,511,021</u>	<u>\$ 328,570,767</u>	<u>\$ 332,023,194</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Statement of Cash Flows

Year Ended December 31, 2017

	2017	2016
OPERATING ACTIVITIES		
Cash receipts from donations, grants, leases	\$ 581,302	\$ 821,903
Cash paid for supplies and services	(438,007)	(650,347)
Interest received	163	117
Interest paid	(51,513)	(46,171)
Cash flow from operating activities	<u>91,945</u>	<u>125,502</u>
INVESTING ACTIVITY		
Purchase of property, plant and equipment	-	(16,025)
Cash flow from (used by) investing activity	<u>-</u>	<u>(16,025)</u>
FINANCING ACTIVITY		
Repayment of callable debt	(43,707)	(42,619)
Cash flow from (used by) financing activity	<u>(43,707)</u>	<u>(42,619)</u>
INCREASE IN CASH FLOW	48,238	66,858
Cash - beginning of year	<u>372,228</u>	<u>305,370</u>
CASH - END OF YEAR	<u>\$ 420,466</u>	<u>\$ 372,228</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

1. PURPOSE OF THE FOUNDATION

Island Corridor Foundation (the "Foundation") was incorporated under the laws of the Government of Canada on January 1, 2004, and was continued under the Canada Not-for-Profit Corporations Act. As a registered charity, the Foundation is exempt from the payment of income tax under Section 149(1) of the Income Tax Act and able to issue donation receipts for income tax purposes. In order to maintain the status of a charitable organization under the Act, the Foundation must meet certain requirements within the Act, which, in the opinion of management, have been met.

The Foundation's primary purposes are to preserve the use of the corridor in perpetuity for the connection and benefit of all Island communities and First Nations along the corridor; to preserve historical landmarks; to create trails, parks and other public areas; to preserve and develop the assets on the Island Corridor and to contribute to rail services along the rail corridor. The members of the Foundation are eleven First Nations and five Regional Districts. They assumed ownership of the 319-kilometre rail corridor in 2006 on behalf of the communities of Vancouver Island.

2. GOING CONCERN

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations which contemplate the continuation of the Foundation as a going concern including the realization of assets and the settlement of liabilities in the ordinary course of operations. However certain conditions may cast significant doubt on the validity of this assumption.

The ability of the Foundation to meet one of its mandates of continuing to develop the railway assets located on the Island Corridor including certain tracks and bridges is dependent on the Foundation's ability to retain the commitment of a railway provider and to obtain grant funding to repair the bridges and tracks.

The Foundation has a Strategic Priorities & Operation Plans which outlines the Foundation's Key Focus Areas including multi-infrastructure plan for Rail.

As outlined in Note 13 the Snaw-Naw-As First Nation (located in Nanoose Bay) filed a lawsuit December 2015 in the BC Supreme Court asking for the return of approximately 10.29 acres of the corridor lands. The ongoing legal proceeds are complex and will likely require a significant amount of time to resolve. The Foundation remains optimistic regarding long-term upgrades and in conjunction with Southern Railway of Vancouver Island (SVI) have identified and costed a series of Phase 1 rail infrastructure options that may be pursued while efforts continue in good faith towards a negotiated settlement with the Snaw-Naw-As First Nation.

Management is currently in the process of preparing and re-submitting funding proposal to the Government of Canada and the Province of BC for the proposed Phase 1 infrastructure and reconfirming funding contributions from impacted regional districts and municipalities.

A cash flow forecast which excludes railway asset development has been prepared and management estimates that there will be annual operating surplus as outlined in the Foundations Strategic Priorities & Operations Plan. Management expects that the cash flows will be updated when there is greater certainty over future funding, the outcome of the lawsuit is known and there is an infrastructure plan in place.

Vital to the rail operations of the Foundation is the involvement with SVI. The Foundation has a draft agreement in which Southern Railway of Vancouver Island (SVI) covenants under the Draft Long Term Operating Agreement to defer repayment of the outstanding balance and interest owing as outlined in Note 10. Subsequent to year end, the Foundation signed a Freight Operations Agreement which amends the repayment terms of the debt.

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ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

2. GOING CONCERN *(continued)*

These financial statements do not reflect the adjustments to the carrying amounts of reported assets and liabilities, revenues and expenses and balance sheet classifications which might be necessary should the going concern assumption not be appropriate. Such adjustments could be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO). As a result these financial statements are in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Fund accounting

Island Corridor Foundation follows the restricted fund method of accounting for contributions and maintains two funds - Operating Fund and Capital Fund.

The Operating Fund accounts for assets, liabilities, revenues and expenses related to the Foundation's program delivery in the preservation of the railway corridor and its administrative activities.

The Capital Fund reports the assets, liabilities, revenues and expenses related to Island Corridor Foundation's capital assets, including acquisitions and disposals and debt commitments.

Revenue recognition

The Foundation recognizes donations when received. Grant revenue is recognized over the period specified by the grantor. Interest revenue is recognized when earned. Revenue from crossing agreements and lease agreements is recognized over the term of the agreement. Rental income is recognized as earned over the term of the lease. Fundraising revenue is recognized when received. File opening fees for crossing agreements are recorded when an agreement is in place and their collectability is reasonably assured.

Contributed services and materials

Contributions of services and materials are recognized both as contributions and expenses in the statement of operations when a fair value can be reasonably estimated and when the services and materials are used in the normal course of the Foundation's operations and would otherwise have been purchased.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at cost or amortized cost, and assessed for indicators of impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

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ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tangible capital assets

Tangible capital assets are stated at cost or deemed cost less accumulated amortization. Tangible capital assets are amortized over their estimated useful lives on a straight-line basis at the following rates:

Track	21.5-27 years
Bridges and tunnels	40 years
Culverts	20 years
Railway signals	8.8 years
Railway stations	20 years

Callable debt

The Foundation's demand loans are classified as current liabilities because the lender has the right to demand repayment within one year.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Significant areas requiring the use of management estimates include accounts receivable, amortization and accrued liabilities.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of capital assets, as outlined above. Accrued liabilities are based on management estimates.

These estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

4. FINANCIAL INSTRUMENTS

The Foundation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Foundation's risk exposure and concentration as of December 31, 2017.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Foundation is exposed to credit risk from customers. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

The credit risk regarding cash is considered to be negligible because it is held by a reputable financial institution with an investment grade external credit rating.

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ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

4. FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Foundation is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, callable debt, long-term debt and accounts payable.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Foundation manages exposure through its normal operating and financing activities. The Foundation is exposed to interest rate risk primarily through its variable rate callable debt and variable rate long term debt.

Unless otherwise noted, it is management's opinion that the Foundation is not exposed to significant other price risks arising from these financial instruments.

5. EXTERNALLY RESTRICTED CASH AND NET ASSETS

During the year, the Foundation received \$24 (2016 - \$7,068) of grants and donations from Courtenay Rotary Club and other donors. The use of the funds is restricted for the future construction of the Courtenay train station and and trailways along the corridor in the Nanaimo region.

6. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 274,470,628	\$ -	\$ 274,470,628	\$ 274,470,628
Track	4,781,757	2,286,531	2,495,226	2,688,286
Bridges and tunnels	29,630,344	8,796,642	20,833,702	21,574,455
Culverts	7,872,370	4,672,213	3,200,157	3,593,776
Railway stations	2,913,364	1,119,170	1,794,194	1,939,863
Railway signals	5,723,000	5,723,000	-	-
Track - not in use	50,941,133	24,358,930	26,582,203	28,638,909
	<u>\$ 376,332,596</u>	<u>\$ 46,956,486</u>	<u>\$ 329,376,110</u>	<u>\$ 332,905,917</u>

The Foundation's tangible capital assets include track assets for which conditions indicate that the assets may be impaired because they no longer have long term service potential. Management has estimated that approximately 91.42% of the track requires upgrades to the railway ties. The railway ties represents approximately 30% of the track net book value.

Subsequent to year end, the Foundation entered into an agreement with the City of Nanaimo, (the landowner), to relinquish a Statutory Right of Way ("SRW") encompassing 200 yards of railway track with an estimated net book value of \$20,000. The City of Nanaimo and the Foundation have agreed to total compensation of \$269,000 for the removal of the railway track and the release of the SRW.

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

7. FUNDS HELD IN TRUST

As at December 31, 2017, \$23,351 (2016 - \$10,923) of funds were held in trust related to statutory right of way applications in progress, which is included in the long term portion of deferred revenue.

8. DEFERRED LEASING COSTS

Deferred leasing costs include commissions paid to DTZ Barnicke for acquiring a tenant for the Nanaimo train station. The amount is amortized over the life of the related lease.

9. CALLABLE DEBT

	<u>2017</u>	<u>2016</u>
CIBC non-revolving instalment loan bearing interest at prime plus 1.75% per annum, repayable in monthly blended payments of \$7,125. The loan matures on December 31, 2031 and is secured by an agreement granting first security interest over all property owned by the Foundation, registered assignment of rents and a \$1.1 million registered first charge over the Nanaimo Train Station property. The net book value of the Nanaimo Train Station Building is \$1,435,278. Loan is callable on demand.	\$ 892,810	\$ 937,502
Principal due in one year	<u>(46,721)</u>	<u>(44,691)</u>
	<u>\$ 846,089</u>	<u>\$ 892,811</u>

Principal repayment terms are approximately:

2018	\$ 46,721
2019	48,843
2020	51,061
2021	53,831
2022	55,805
Thereafter	<u>636,549</u>
	<u>\$ 892,810</u>

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

10. TERM DEBT

	<u>2017</u>	<u>2016</u>
Southern Railway of Vancouver Island ("SVI") loan bearing interest at prime plus 1% per annum, repayable in 4 quarterly payments per year of \$25,000 plus interest. The loan is secured by a promissory note and a second charge over all of the Foundation's assets.	\$ 175,000	\$ 175,000
Amounts payable within one year	<u>(175,000)</u>	<u>(175,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

There has been no principal and interest repayments on the loan since September 30, 2008. The parties have an agreement to defer repayment of the debt plus accumulated interest up to the date of execution of a Long Term Operating Agreement. Until the revised terms of a draft agreement are agreed to by SVI, the liability will remain a current liability. Included in accrued interest payable is \$62,710 (2016 - \$56,235) related to this loan.

On October 1, 2018, the Foundation signed a Freight Operations Agreement which expires on September 30, 2023. Under the terms of the agreement, SVI will pay a licence fee to the Foundation of \$2,000 per month and the Foundation will pay monthly loan payments of \$2,000 to SVI. As long as the Foundation pays the monthly payments, SVI has agreed to grant a waiver of interest on the remaining unpaid principal amount of the loan.

11. DEFERRED REVENUE

Deferred revenue consists of long term leases and right-of-way fees where payments were received in advance. Changes in the deferred revenue balance are as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 187,429	\$ 328,340
Amount received during the year	462,564	430,339
Less: Amount recognized as revenue during the year	<u>(466,807)</u>	<u>(571,250)</u>
Balance, end of year	<u>\$ 183,186</u>	<u>\$ 187,429</u>

The current portion of deferred revenue is \$117,658 (2016 - \$127,654) and the non-current portion is \$65,528 (2016 - \$59,775).

12. RENTAL INCOME

Rental revenue and expenses related to the Nanaimo and Courtenay Train Stations are as follows:

	<u>2017</u>	<u>2016</u>
Commercial rent	\$ 89,046	\$ 98,498
Recoveries from tenant	14,788	28,954
Rental expenses	<u>(38,990)</u>	<u>(33,887)</u>
	<u>\$ 64,844</u>	<u>\$ 93,565</u>

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2017

13. CONTINGENT LIABILITY

The Attorney General of Canada and the Foundation have been named as defendants in a lawsuit dated December 22, 2015 seeking to revert lands held by the Foundation of approximately 10.29 acres back to the administration and control of Canada for the use and benefit of Snaw-Naw-As First Nation. This lawsuit remains at an early stage, and as litigation is subject to many uncertainties, it is not possible to predict the ultimate outcome of this lawsuit or to estimate the loss, if any, which may result.

14. ECONOMIC DEPENDENCE

One of the Foundation's primary source of revenue is from an annual donation from the Canadian Pacific Railway of \$329,940 (2016 - \$329,940) per year. The Foundation's ability to continue viable operations is dependent upon the continued support of this entity.

15. RELATED PARTY TRANSACTIONS

Property taxes and utility rates of \$29,621 (2016 - \$67,709) were paid to members of the Foundation. Crossings, leases and fees include \$22,781 (2016 - \$70,118) received from members of the Foundation for land use and engineering recovery fees. These transactions are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Municipal members have provided the Foundation with an exemption from paying property taxes in which case no expense is recorded. Included in accounts receivable is \$14,501 (2016 - \$20,876) owing from members of the Foundation.

Included in Management and administrative services are fees to a company controlled by the executive director, for administration of \$52,267 (2016 - \$52,267) and Executive Director services of \$102,000 (2016 - \$104,399). The contracts are for the period June 1, 2016 to November 30, 2018.

The annual committed amounts under these contracts are as follows:

2018	<u>\$ 137,500</u>
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