



**APPLICATION FORM FOR PERMISSIVE
EXEMPTION FROM PROPERTY
TAXATION FOR 2021-2023**

(Section 224 of the Community Charter)

1. IDENTIFICATION OF APPLICANT:

Organization name: Island Corridor Foundation

Are you registered under the *Societies Act*?

Yes

☒

No

☐

Are you a registered charity?

Yes

☒

No

☐

Mailing Address: Box 375 Stn A, Nanaimo, BC V9R 5L3

Contact Person: Andrea Thomas Email Address: andreathomas@islandrail.ca

Telephone Number: 250-754-7254 Fax Number: _____

Preferred method of application reminder:

Email

☒

Mail

☐

2. PROPERTY (complete a separate form for each property)

Folio Number: PID 023-795-212, PID 024-019-721, PID 025-582-089 Address: Rail Corridor

Legal Description: LOT A SECTION 2 ESQUIMALT DISTRICT PLAN VIP65446, LOT A SECTIONS 10 AND 11 ESQUIMALT DISTRICT PLAN VIP66612, LOT A SECTION 25 ESQUIMALT DISTRICT PLAN V

Registered Owner (if different than above): _____

3. ABOUT YOUR ORGANIZATION: Please include (i) a brief description of the goals, objectives and mandate of the organization, (ii) your administrative, volunteer and Board structures and (iii) your days and hours of operation. Please attach additional documentation if necessary.

The Island Corridor Foundation (ICF) is a federally registered charity established for the purposes of owning and managing the former E&N Corridor on Vancouver Island. The foundation recognizes the importance of this corridor as a link that connects communities economically, socially and spiritually, today, and for all time. The foundation represents First Nations and Local Governments adjacent to the corridor.

ICF has been working diligently over the past years to secure a stable and prosperous future for the new ICF Corridor for the benefit of all Vancouver Island Residents. At the beginning of 2006 ICF achieved a significant milestone, concluding Asset Donation Agreements with the Canadian Pacific Railway (CPR) and Rail America (RA) to acquire full ownership of the former E&N Corridor.

The ICF Staff consists of 2 full time employees, the CEO and the Manager, Corridor Development, a part-time First Nation's Liaison and the CFO. The Board of Directors consists of 6 First Nation's Directors, 5 Regional District Directors and 1 Director at Large. Our hours of operation are from 9-5, Monday to Friday.

General Statement of Activities:

Through the sustained efforts of elected leaders of both First Nations and Local Governments who have accepted a mandate to work towards the preservation of the corridor, the charitable objectives of ICF are to:

- Acquire, preserve and develop for purposes of the Foundation and its objects, but for no other purposes, the Island Corridor which lies north-south from Victoria to Courtenay, east-west from Duncan to Lake Cowichan, and east-west from Nanaimo to Port Alberni on Vancouver Island together with ancillary lands, structures and all other property rights attached thereto (the "Island Corridor") and the infrastructure and other assets that constitute the E&N Railroad and are located on the Island Corridor (the "Railroad")
- Maintain the continuity of the Island Corridor as a continuous special use connection for all communities, while respecting and supporting First Nations interests and traditional lands and uses
- Contribute to safe and environmentally sound passenger and freight rail services along the Railroad
- Encourage a flexible infrastructure along the Island Corridor which will encourage a wide range of economic and trade activity for the benefit of all the communities lying adjacent to the Island Corridor
- Preserve archaeological resources, historic landmarks, structures, artifacts and historic routes along the Island Corridor for historical purposes and for ongoing and future use by the community
- Create trails, parks, gardens, greenways and other public areas for use of members of the public along the length of the Island Corridor
- Conserve the environment and spiritual features and functions of the Island Corridor in respect of the land, water and natural resources for the general benefit of the public, and
- Do all such charitable activities which are incidental to and beneficial to the attainment of the purposes stated above.

4. PRINCIPAL USE OF THIS PROPERTY: Please provide a brief description of the principal use of the property and how this use benefits the community.

Description of Community Benefits:

- Continuing Freight Service: Rail is the safest, most cost-efficient and most environmentally friendly form of surface transportation available. The ICF presently has an Interim Operating Agreement with Southern Rail of Vancouver Island (SVI)

- Continuing Passenger Service: SVI has negotiated a new operating agreement with VIA Rail

- Future Commuter Rail Opportunities: The preservation of this corridor over the short term ensures the opportunity for commuter service in the future. ICF and SVI developed a Pilot Commuter Project outline for the City of Langford, Township of Esquimalt, Town of View Royal, and City of Victoria. With continual growth of Vancouver Island communities, particularly when coupled with the changing demographics toward an aging population, there is significant potential for commuter rail.

- Park 'n' Ride Stops: In 2016 ICF entered into a License of Occupation with Westhills to provide a train stop and parking lot for future train opportunities. In 2010 ICF had also worked with BC Transit to provide a License of Occupation for the facility on Station Street which was renewed in 2019.

- Tourism Benefits: The ICF sees a great potential for greater and more efficient integration with transportation services. Bus shuttles connecting from the train station to ferry terminals and airports when coupled with increased types of excursion rail opportunities, including those linked to cruise ships, would greatly enhance Vancouver Island's tourism opportunities.

- Rails-with-Trails: Connection of Atkins Road Bike Lane to the Galloping Goose and E&N Rail trail was developed in 2015. Completed sections of trail from Jacklin Road to Savory School, and working with the agreement with CRD for trail that is complete to Hallowell Road. In addition trails have been constructed throughout Vancouver Island utilizing rail corridor in the Cowichan Valley Regional District, Duncan, North Cowichan, Lake Cowichan, Nanaimo, Lantzville, Qualicum Beach, and Courtenay

- Long-term jobs for First Nations: This has been identified as a priority by the ICF Board of Directors. The Foundation has a First Nations Liaison officer whose principal task is the identification and commercialization of services for the benefit of First Nations Communities.

- Integrity of the Corridor: The corridor runs within 30 minutes of more than 80% of all Island resident and represents an irreplaceable asset and invaluable resource to the economic vitality of Vancouver Island communities. Its role for transportation, recreation and tourism will only grow in importance as communities along the corridor continue to expand and develop.

While only a small portion of freight service is currently operating within Nanaimo region, the Wellcox Yard continues to support the trans-load of rail traffic.

5. PUBLIC ACCESS: Please describe how your organization's services are available to the public. Is access to your organization's services limited in any way?

The ICF works closely with the Regional Districts, First Nation's communities and Municipalities in developing trails on the Rail Right of Way. To date, there have been over 100km of Rail trails constructed on Vancouver Island with more development plans in place. The non-motorized trails are available for the public's use and enjoyment.

6. USAGE STATISTICS: What percentage of your total client/member base are Esquimalt residents?

Unknown.

7. COMMERCIAL ACTIVITY: Please provide a brief description of any commercial activities that your organization conducts on this property.

The ICF currently has no commercial activities in the Township of Esquimalt.



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8. **FUNDING:** Please provide details about any fees that are charged for your services. Please outline the attempts made to secure funding from other sources and provide details about funding that has been secured, including from other municipalities or levels of government?

The ICF is seeking funding from the Provincial and Federal Government to restore rail service for the benefit of all Vancouver Island residents and tourists alike. The Province and MoTI have completed an assessment of the entire Rail Corridor including cost estimates for different levels of service based on the needs and population of the Island. The Island Rail Corridor Assessment will be tied into the Province' South Island Transportation Study which is set to be released in the Fall of 2020.

9. **LEASED SPACE:** Please attach any and all lease agreements for any portion of the identified property that your organization rents or leases to another organization or individual.

10. **PUBLIC ACKNOWLEDGEMENT:** All recipients of Township of Esquimalt permissive tax exemptions are required to publicly acknowledge the exemption. How does your organization plan on publicly acknowledging the exemption?

The ICF will post acknowledging the tax exemption on the <http://www.islandrail.ca> website.

11. **FINANCIAL STATEMENTS:** Attach your most recent financial statements.

12. **DECLARATION:**

I am an authorized signing officer of the organization and I certify that the information given in this application is correct. Should a permissive tax exemption be granted on the above listed property, I agree to the following terms:

- If the property is sold prior to the exemption expiration or if the conditions of the exemption are breached, the organization will remit to the Township an amount equal to the taxes that would have otherwise been payable by a non-exempt owner.
- The property use will be in compliance with all applicable municipal policies and bylaws.
- The organization will publicly acknowledge the permissive tax exemption granted by the Township.

Digitally signed by Andrea
Thomas
Date: 2020.08.31 09:56:26
-07'00'

Signature

Andrea Thomas

Name (please print)

Manager, Corridor Development
Position

August 31, 2020

Date

About the Island Corridor Foundation

Purpose of the Organization:

The Island Corridor Foundation (ICF) is a federally registered charity established for the purposes of owning and managing the former E&N Corridor on Vancouver Island. The foundation recognizes the importance of this corridor as a link that connects communities economically, socially and spiritually, today, and for all time. The foundation represents First Nations and Local Governments adjacent to the corridor.

ICF has been working diligently over the past five years to secure a stable and prosperous future for the new ICF Corridor for the benefit of all Vancouver Island Residents. At the beginning of 2006 ICF achieved a significant milestone, concluding Asset Donation Agreements with the Canadian Pacific Railway (CPR) and Rail America (RA) to acquire full ownership of the former E&N Corridor.

General Statement of Activities:

Through the sustained efforts of elected leaders of both First Nations and Local Governments who have accepted a mandate to work towards the preservation of the corridor, the charitable objectives of ICF are to:

- Acquire, preserve and develop for purposes of the Foundation and its objects, but for no other purposes, the Island Corridor which lies north-south from Victoria to Courtenay, east-west from Duncan to Lake Cowichan, and east-west from Nanaimo to Port Alberni on Vancouver Island together with ancillary lands, structures and all other property rights attached thereto (the "Island Corridor") and the infrastructure and other assets that constitute the E&N Railroad and are located on the Island Corridor (the "Railroad")
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About the Island Corridor Foundation

- Create trails, parks , gardens, greenways and other public areas for use of members of the public along the length of the Island Corridor
- Conserve the environmental and spiritual features and functions of the Island Corridor in respect of the land, water and natural resources for the general benefit of the public, and
- Do all such charitable activities which are incidental to and beneficial to the attainment of the purposes stated above.

Description of Population Served:

A 12-person Board of Directors governs ICF. Five Directors represent the Regional Districts and five directors represent First Nations. Membership is limited to local governments and First Nation governments whose territories are wholly or partly within the geographic area of the Corridor. ICF operates under the by line ".....connecting Communities". This is identified to describe physical connections, but also economic and cultural connections. The charitable actions of the foundation are undertaken for the benefit of all Vancouver Island Residents. Specifically this includes:

- First Nations: There are First Nations groups along the corridor who play a strong role in ICF, with First Nations groups supporting nominees who serve on the Board of Directors
- Industry: The maintenance and protection of the corridor will benefit existing and new industries through the provision of viable alternatives to truck traffic
- Rail Users: Includes users of VIA Rail service from Victoria to Courtenay and potential future users of commuter rail, freight rail services, and enhanced passenger of excursion rail services
- Trail Users: Recreational users and tourists
- Utilities: There are currently fiber-optic and other utilities within the corridor. ICF is exploring options for more utilities within the right of way
- Adjacent Communities: The corridor plays a crucial role in adjacent communities, providing a key resource and valuable asset.

Description of Community Benefits:

- Continuing Freight Service: Rail is the safest, most cost-efficient and most environmentally friendly form of surface transportation available. The ICF presently has an Interim Operating Agreement with Southern Rail of Vancouver Island (SVI).

About the Island Corridor Foundation

- Continuing Passenger Service: SVI has negotiated a new operating agreement with VIA Rail.
- Future Commuter Rail Opportunities: The east coast of Vancouver Island is among the fastest growing areas in Canada. With continual growth of Vancouver Island communities, particularly when coupled with the changing demographics toward an aging population, there is significant potential for commuter rail. The preservation of this corridor over the short term ensures the opportunity for a commuter service in the future.
- Tourism Benefits: The ICF sees a great potential for greater and more efficient integration with transportation services. Bus shuttles connecting from the train station to ferry terminals and airports when coupled with increased types of excursion rail opportunities, including those linked to cruise ships, would greatly enhance Vancouver Island's tourism opportunities.
- Rails-with-trails: The ICF is interested in working with all the Regional Districts and local governments on the line to eventually construct a trail running the length of the corridor. The ICF has signed an access agreement with the Capital Regional District for the E&N Rail-with-trail project running from the Blue Bridge in Victoria to Langford. In addition trails have been constructed throughout Vancouver Island utilizing rail corridor in the Cowichan Valley Regional District, Duncan, North Cowichan, Lake Cowichan, Nanaimo, Lantzville, Qualicum Beach, and Courtenay.
- Long-term jobs for First Nations: This has been identified as a priority by the ICF Board of Directors. The Foundation has a First Nations Liaison officer whose principal task is the identification and commercialization of services for the benefit of First Nations Communities.
- Integrity of the Corridor: The corridor runs within 30 minutes of more than 80% of all Island residents and represents an irreplaceable asset and invaluable resource to the economic vitality of Vancouver Island communities. Its role for transportation, recreation and tourism will only grow in importance as communities along the corridor continue to expand and develop.

While only a small portion of freight service is currently operating within Nanaimo region the Wellcox Yard continues to support the transfer of rail traffic.

ISLAND CORRIDOR FOUNDATION

Financial Statements

Year Ended December 31, 2019

ISLAND CORRIDOR FOUNDATION

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Year Ended December 31, 2019

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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, 2019 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.

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Basis for Qualified Conclusion

The Foundation's tangible capital assets include \$22,451,252 of track for which conditions indicate that the track assets may be impaired requiring that the net carrying amount of the tangible capital asset be written down to the assets' fair value. In addition, included in amortization expense is \$2,055,240 of amortization for tracks that are not in use. We were unable to evaluate the impact of this possible impairment and related amortization adjustment as management did not prepare an analysis and estimate of the assets' fair value as at December 31, 2019 and possible related impairment adjustment for the year ended December 31, 2019. Consequently, we were unable to perform the procedures we considered necessary.

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, 2019, 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, 2019 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.

Nanaimo, BC

May 7, 2020

CHARTERED PROFESSIONAL ACCOUNTANTS

ISLAND CORRIDOR FOUNDATION
Statement of Financial Position
December 31, 2019

	Operating Fund	Capital Fund	2019	2018
ASSETS				
CURRENT				
Cash (Note 5)	\$ 489,945	\$ -	\$ 489,945	\$ 673,131
Externally restricted cash (Note 5)	-	-	-	26,601
Accounts receivable	11,902	-	11,902	143,012
Prepaid expenses	20,953	-	20,953	7,693
	522,800	-	522,800	850,437
TANGIBLE CAPITAL ASSETS				
(Net of accumulated amortization) (Note 6)	-	322,344,312	322,344,312	325,829,391
FUNDS HELD IN TRUST (Note 7)	-	-	-	23,351
DEFERRED LEASING COSTS (Note 8)				
	6,885	-	6,885	9,738
	<u>\$ 529,685</u>	<u>\$ 322,344,312</u>	<u>\$ 322,873,997</u>	<u>\$ 326,712,917</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Statement of Financial Position

December 31, 2019

	Operating Fund	Capital Fund	2019	2018
LIABILITIES AND NET ASSETS				
CURRENT				
Accounts payable	\$ 59,071	\$ -	\$ 59,071	\$ 74,882
Callable debt due in one year (Note 9)	-	51,080	51,080	37,729
Current portion of term debt (Note 10)	24,000	-	24,000	24,000
Accrued interest payable (Note 10)	62,710	2,851	65,561	66,018
Goods and services tax payable	1,234	-	1,234	2,019
Deferred revenue (Note 11)	3,087	-	3,087	119,356
	150,102	53,931	204,033	324,004
Callable debt due thereafter (Note 9)	-	757,898	757,898	816,984
	150,102	811,829	961,931	1,140,988
LONG TERM DEBT (Note 10)	121,000	-	121,000	145,000
DEFERRED REVENUE (Note 11)	14,128	-	14,128	38,315
	285,230	811,829	1,097,059	1,324,303
NET ASSETS	244,455	321,532,483	321,776,938	325,388,614
	\$ 529,685	\$ 322,344,312	\$ 322,873,997	\$ 326,712,917

CONTINGENT LIABILITY (Note 13)

COMMITMENTS (Note 15)

ON BEHALF OF THE BOARD

Director

Director

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Statement of Operations

Year Ended December 31, 2019

	Operating Fund	Capital Fund	Total 2019	Total 2018
REVENUE				
Crossings, leases and fees <i>(Note 11)</i>	\$ 212,277	\$ -	\$ 212,277	\$ 295,222
Donations and grants <i>(Note 14)</i>	352,255	-	352,255	436,528
Rental Income <i>(Note 12)</i>	82,008	-	82,008	58,309
Interest	-	-	-	352
	<u>646,540</u>	<u>-</u>	<u>646,540</u>	<u>790,411</u>
EXPENSES				
Audit and accounting fees	27,164	-	27,164	22,171
Bad debts	-	-	-	39,321
Board expenses	15,242	-	15,242	22,178
Communications	34,306	-	34,306	7,860
Consulting fees and engineering	29,400	-	29,400	31,618
Donations	-	5,500	5,500	-
Insurance	34,711	-	34,711	31,646
Interest and bank charges	1,044	-	1,044	258
Interest on short term debt	-	46,115	46,115	46,418
Legal fees	118,910	-	118,910	55,329
Management and administration services	34,150	-	34,150	159,821
Office	7,712	-	7,712	11,966
Professional fees <i>(Note 15)</i>	51,765	-	51,765	-
Property taxes and utility rates	19,634	-	19,634	23,414
Repairs and maintenance	83,035	-	83,035	142,132
Salaries and wages <i>(Note 15)</i>	208,127	-	208,127	92,715
Trail development fees	-	-	-	264
Travel	8,583	-	8,583	5,269
	<u>673,783</u>	<u>51,615</u>	<u>725,398</u>	<u>692,380</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS BEFORE AMORTIZATION	<u>(27,243)</u>	<u>(51,615)</u>	<u>(78,858)</u>	<u>98,031</u>
Amortization				
Amortization	-	(3,532,818)	(3,532,818)	(3,529,053)
Gain on termination of license	-	-	-	248,874
	<u>-</u>	<u>(3,532,818)</u>	<u>(3,532,818)</u>	<u>(3,280,179)</u>
DEFICIENCY OF REVENUE OVER EXPENSES	<u>\$ (27,243)</u>	<u>\$ (3,584,433)</u>	<u>\$ (3,611,676)</u>	<u>\$ (3,182,148)</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION**Statement of Changes in Net Assets****Year Ended December 31, 2019**

	Operating Fund	Capital Fund	2019	2018
NET ASSETS - BEGINNING OF YEAR	\$ 385,574	\$ 325,003,040	\$ 325,388,614	\$ 328,570,767
Excess (deficiency) of revenue over expenses	(27,243)	(3,584,433)	(3,611,676)	(3,182,153)
Interfund loans and repayment of debt	(113,876)	113,876	-	-
NET ASSETS - END OF YEAR	<u>\$ 244,455</u>	<u>\$ 321,532,483</u>	<u>\$ 321,776,938</u>	<u>\$ 325,388,614</u>

See notes to financial statements

ISLAND CORRIDOR FOUNDATION**Statement of Cash Flows****Year Ended December 31, 2019**

	2019	2018
OPERATING ACTIVITIES		
Cash receipts from donations, grants, leases	\$ 587,241	\$ 634,868
Cash paid for supplies and services	(701,273)	(557,334)
Interest received	-	353
Interest paid	(47,159)	(46,681)
Cash flow from operating activities	(161,191)	31,206
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	47,740	(2,459)
Proceeds on termination of license	-	269,000
Cash flow from investing activities	47,740	266,541
FINANCING ACTIVITIES		
Repayment of callable debt	(45,735)	(39,082)
Repayment of long term debt	(24,000)	(6,000)
Cash flow from (used by) financing activities	(69,735)	(45,082)
INCREASE (DECREASE) IN CASH FLOW	(183,186)	252,665
Cash - beginning of year	673,131	420,466
CASH - END OF YEAR	\$ 489,945	\$ 673,131

See notes to financial statements

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

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. As a result of the COVID-19 crisis as outlined in Note 16, access to government grant funding may be further delayed which will continue to put at risk the ability of the Foundation to meet its mandate of continuing to develop the railway assets.

The Foundation has a Strategic Priorities & Operation Plan 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.

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ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

2. GOING CONCERN (*continued*)

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. Key to senior level government funding proposals is an up to date infrastructure assessment. The province of BC released the Island Rail Corridor Condition Assessment Summary Report completed by WSP Canada Group Ltd. April 2020. The summary identifies the railway corridor overall as being in Poor to Fair condition. The summary provides a conceptual cost estimate in support of three Improvement Phases evaluated: Initial, Intermediate and Ultimate. These phased cost estimates are separated between Victoria Subdivision and Port Alberni Subdivision and further divided into six geographical segments. The assessment will be reviewed, and implementation and funding is pending the approval of the Provincial Government.

Vital to the rail operations of the Foundation is the involvement with SVI. The Foundation entered into an agreement with Southern Railway of Vancouver Island (SVI) in which SVI will pay a license 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.

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.

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ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

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

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.

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
Equipment	5 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.

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

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, 2019.

(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.

(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

Included in cash is \$21,101 (2018 - \$26,601) 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 trailways along the corridor in the Nanaimo region.

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

6. TANGIBLE CAPITAL ASSETS

	Cost	Accumulated amortization	2019 Net book value	2018 Net book value
Land	\$ 274,470,628	\$ -	\$ 274,470,628	\$ 274,470,628
Track	4,782,419	2,673,042	2,109,377	2,302,474
Bridges and tunnels	29,630,124	10,277,928	19,352,196	20,092,949
Culverts	7,872,370	5,459,450	2,412,920	2,806,539
Computer equipment	2,679	1,876	803	1,783
Railway stations	2,930,875	1,410,944	1,519,931	1,648,526
Railway signals	5,723,000	5,723,000	-	-
Equipment	30,228	3,023	27,205	-
Track - not in use	50,901,904	28,450,652	22,451,252	24,506,492
	<u>\$ 376,344,227</u>	<u>\$ 53,999,915</u>	<u>\$ 322,344,312</u>	<u>\$ 325,829,391</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 91.41% of the track requires upgrades to the railway ties. The railway ties represents approximately 30% of the track net book value.

7. FUNDS HELD IN TRUST

As at December 31, 2019, \$Nil (2018 - \$23,351) were held in trust related to statutory right of way applications in progress.

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.

ISLAND CORRIDOR FOUNDATION

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9. CALLABLE DEBT

CIBC non-revolving instalment loan bearing interest at prime plus 1% per annum, repayable in monthly blended payments of \$7,500. The loan matures on December 31, 2031 and is secured by an agreement granting first security interest over chattel 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 \$1,332,762. Loan is callable on demand.

Principal due in one year

	2019	2018
	\$ 808,977	\$ 854,713
	(51,080)	(37,729)
	<u>\$ 757,897</u>	<u>\$ 816,984</u>

Principal repayment terms are approximately:

2020	\$ 51,080
2021	53,666
2022	56,384
2023	59,239
2024	62,239
Thereafter	<u>526,369</u>
	<u>\$ 808,977</u>

ISLAND CORRIDOR FOUNDATION
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10. TERM DEBT

	<u>2019</u>	<u>2018</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.	\$ 145,000	\$ 169,000
Amounts payable within one year	<u>(24,000)</u>	<u>(24,000)</u>
	<u>\$ 121,000</u>	<u>\$ 145,000</u>

Principal repayment terms are approximately:

2020	\$ 24,000
2021	24,000
2022	24,000
2023	24,000
2024	24,000
Thereafter	<u>25,000</u>
	<u>\$ 145,000</u>

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. Included in accrued interest payable is \$62,710 (2018 - \$62,710) related to this 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>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 157,671	\$ 183,186
Amount received during the year	-	110,000
Less: Amount recognized as revenue during the year	<u>(140,456)</u>	<u>(135,515)</u>
Balance, end of year	<u>\$ 17,215</u>	<u>\$ 157,671</u>

The current portion of deferred revenue is \$3,087 (2018 - \$119,356) and the non-current portion is \$14,128 (2018 - \$38,315).

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

Year Ended December 31, 2019

12. RENTAL INCOME

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

	2019	2018
Commercial rent	\$ 107,197	\$ 89,770
Recoveries from Tenant	36,971	64,428
Rental: GST Rebates/refunds	2,660	-
Rental expenses	(64,820)	(95,889)
	<u>\$ 82,008</u>	<u>\$ 58,309</u>

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. As of the date of the Financial Statement, there is still no court ruling on this case.

14. ECONOMIC DEPENDENCE

One of the Foundation's primary source of revenue is from an annual amount received from the Canadian Pacific Railway of \$352,255 (2018 - \$436,504) per year. The amount is based on an agreement regarding payments from Telus to the Canadian Pacific Railway and onto the Foundation regarding land use for Fibre Optic Cable. 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 \$10,152 (2018 - \$16,736) were paid to members of the Foundation. Crossings, leases and fees include \$32,552 (2018 - \$85,170) received from members of the Foundation for land use and sundry 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 \$5,600 (2018 - \$6,825) owing from members of the Foundation.

On November 30, 2018, the contracts ended for the former Executive Director. Included in management and administrative services in 2018 were fees paid to a company controlled by the former Executive Director for administration of \$40,200 and Executive Director services of \$94,350. Included in professional fees expense in the current year are fees paid to the former Executive Director for consulting services of \$51,765.

Included in salaries and wages are the new Executive Director's fees for services of \$130,000 (2018 - \$54,167). The contract is for the period August 1, 2018 to July 31, 2021. The annual committed amount under this contract is \$130,000

ISLAND CORRIDOR FOUNDATION

Notes to Financial Statements

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16. SUBSEQUENT EVENTS

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. Management is closely monitoring the evolution of the situation and taking measures to ensure business continuity and mitigate any potential negative impact on the business. Management feels the greatest risk relates to its ability to collect commercial rents as COVID-19 has impacted current tenants. A plan has been developed to actively manage the tenants over this period. Although the pandemic has the potential to negatively impact the Foundation's revenues in the short term, management does not currently consider the risk to be significant.

The Foundation has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Foundation for future periods.