

**ATHLII GWAII LEGACY TRUST**  
**Financial Statements**  
**As at December 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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To the Trustees of Athlil Gwaii Legacy Trust

We have audited the accompanying financial statements of Athlil Gwaii Legacy Trust, which comprise the statement of financial position as at December 31, 2016 and the statements of revenues and expenses, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Athlil Gwaii Legacy Trust as at December 31, 2016 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Terrace, BC  
February 17, 2017

*MNP* LLP  
Chartered Professional Accountants

**ATHLII GWAII LEGACY TRUST**  
**Statement of Financial Position**  
**As at December 31, 2016**

	2016	2015
<b>Assets</b>		
Current		
Cash	\$	\$ 47,177
Investment income receivable	61,026	74,289
Prepaid expense	632	628
	<b>61,658</b>	<b>122,094</b>
Long term investments (Notes 5, 6)	<b>43,861,565</b>	<b>41,263,036</b>
	<b>\$ 43,923,223</b>	<b>\$ 41,385,130</b>
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 4)	\$ 69,203	\$ 57,539
Accounts payable and accrued liabilities	64,416	2,363
Advances from Gwaii Trust Society (Note 10)	2,363	2,363
	<b>135,982</b>	<b>59,902</b>
Program commitments (Note 7)	<b>50,592</b>	<b>50,592</b>
	<b>186,574</b>	<b>110,494</b>
<b>Net assets</b>		
Unrestricted	15,721,599	13,612,614
Restricted (Note 9)	28,015,050	27,662,022
	<b>43,736,649</b>	<b>41,274,636</b>
	<b>\$ 43,923,223</b>	<b>\$ 41,385,130</b>

On behalf of the Board

  
 \_\_\_\_\_ Trustee

  
 \_\_\_\_\_ Trustee

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Revenues and Expenses**  
**Year Ended December 31, 2016**

	2016	2015
<b>Revenue</b>		
Investments income <i>(Note 8)</i>	\$ 2,461,878	\$ 2,598,744
<b>Investment management and regulatory expenses</b>		
Custodial fees	56,752	57,584
Investment management	169,851	166,570
Professional fees	33,623	88,076
Trust protector fees	11,568	24,834
	<b>271,794</b>	<b>337,064</b>
<b>Net trust earnings</b>	<b>2,190,084</b>	<b>2,261,680</b>
<b>Expenses</b>		
Advertising and promotion	253	
Bank charges	67	79
Honoraria	20,000	20,000
Communication		112
Insurance	4,055	3,970
Management salaries	100,000	100,000
Meetings and conventions	10,000	10,000
Facility costs	15,000	15,000
Travel	15,000	15,000
Vehicle	4,000	4,000
	<b>168,375</b>	<b>168,161</b>
<b>Excess of revenue over expenses from operations</b>	<b>2,021,709</b>	<b>2,093,519</b>
Grant inflation protection <i>(Note 9)</i>	<b>(353,028)</b>	<b>(495,649)</b>
<b>Excess of revenue over expenses before program costs and unrealized gains on long term investments</b>	<b>1,668,681</b>	<b>1,597,870</b>
Project commitments		63,240
<b>Excess of revenue over expenses before unrealized gains on long term investments</b>	<b>1,668,681</b>	<b>1,534,630</b>
<b>Unrealized gains (losses)</b>		
Unrealized gains (losses) on long term investments	430,220	(191,971)
Unrealized foreign exchange gains (losses)	10,084	691,608
	<b>440,304</b>	<b>499,637</b>
<b>Excess of revenue over expenses for the year</b>	<b>\$ 2,108,985</b>	<b>\$ 2,034,267</b>

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2016**

	Unrestricted	Restricted	2016	2015
<b>Net assets - beginning of year</b>	\$ 13,612,614	\$ 27,662,022	\$ 41,274,636	\$ 38,744,720
Excess of revenue over expenses	2,108,985		2,108,985	2,034,267
Grant inflation protection		353,028	353,028	495,649
<b>Net assets - end of year</b>	\$ 15,721,599	\$ 28,015,050	\$ 43,736,649	\$ 41,274,636

**ATHLII GWAII LEGACY TRUST**  
**Statement of Cash Flow**  
**Year Ended December 31, 2016**

	2016	2015
<b>Operating activities</b>		
Excess of revenue over expenses	\$ 2,108,985	\$ 2,034,267
Item not affecting cash:		
Grant inflation protection	353,028	495,649
	<b>2,462,013</b>	<b>2,529,916</b>
Changes in non-cash working capital:		
Investment income receivable	13,263	(11,852)
Accounts payable and accrued liabilities	6,876	11,540
Prepaid expenses	(3)	(51)
Advances from (to) Gwaii Trust Society		(79,137)
	<b>20,136</b>	<b>(79,500)</b>
Cash flow from operating activities	<b>2,482,149</b>	<b>2,450,416</b>
<b>Financing activities</b>		
Program commitments		50,592
Net change in investments	(2,598,529)	(2,487,071)
Cash flow used by financing activities	<b>(2,598,529)</b>	<b>(2,436,479)</b>
<b>Increase (decrease) in cash</b>	<b>(116,380)</b>	<b>13,937</b>
<b>Cash - beginning of year</b>	<b>47,177</b>	<b>33,240</b>
<b>Cash (deficiency) - end of year</b>	<b>\$ (69,203)</b>	<b>\$ 47,177</b>

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

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**1. Purpose of the organization**

The AthlII Gwaii Legacy Trust was settled on March 29, 2007 under the terms of the Deed of Trust. The Trust was established to provide a vehicle for the repatriation of the funds contributed under the South Moresby Agreement by the Province of British Columbia and the Government of Canada to Haida Gwaii. The funds endowed by the Federal and Provincial governments are for the purpose of increasing the sustainable forest management on Haida Gwaii and to increase community stability through enhancing the forest related economy of Haida Gwaii.

The Charitable Trust is a non-profit organization under the Income Tax Act and accordingly is exempt from income taxes.

**2. Future operations and funding commitment**

Under the terms of the Deed of Trust referred to in Note 1, the AthlII Gwaii Legacy Trust is required to maintain, at a minimum, funds equal to the initial endowment of \$24,000,000 adjusted for inflation annually.

The Trustees of the AthlII Gwaii Legacy Trust had previously suspended any further disbursements of Trust assets for program funding up to December 31, 2014. As the market value of the investment portfolio of the Trust of \$43,861,565 at December 31, 2016 has risen above the the inflation adjusted endowment value of \$28,015,050, the Trustees committed to resuming disbursements of Trust assets for program funding.

**3. Summary of significant accounting policies**

**Basis of presentation**

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPPO). Canadian accounting standards for not-for-profit organizations are part of Canadian GAAP.

**Cash and cash equivalents**

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and other short term instruments and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

**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 amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

**Other investments**

Investments for which there are quoted prices in an active market are carried at fair value. Unrealized gains or losses are reported as part of net income. Investments for which there is not an active market are carried at amortized cost except when it is established that their value is impaired. Impairment losses, or reversal of previously recognized impairment losses, are reported as part of net income.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

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**3. Summary of significant accounting policies (*continued*)**

Foreign currency translation

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. Non-monetary assets have been translated at the rate of exchange prevailing at the date of transaction. Revenues and expenses have been translated at the average rates of exchange during the year, except for amortization, which has been translated at the same rate as the related assets.

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

Revenue recognition

Athlii Gwaii Legacy Trust follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

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.

**4. Bank indebtedness**

The bank indebtedness reflects a timing difference between cheques issued and the transfer of funds from the Trust's investment account. The transfer into the operating account was subsequently received before any of the issued cheques were received by the bank for processing.



**ATHLII GWAI LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

**5. Investments**

	2016		2015	
	Cost	Market	Cost	Market
Cash	\$ 28,232	\$ 28,232	\$ 32,197	\$ 32,197
Treasury bills and short term investments	99,941	99,941	224,805	224,805
Federal and Provincial Government bonds	4,403,316	4,307,807	3,980,154	4,014,719
Corporate bonds	7,740,815	8,009,552	7,439,807	7,664,555
Mortgage funds	643,727	653,120	764,176	785,660
Equities	6,614,419	8,096,630	6,363,534	6,867,158
International equities	12,192,087	18,011,373	11,607,676	17,416,619
Equities - real estate investment trusts	2,604,597	4,654,910	2,517,598	4,257,323
	<b>\$ 34,327,134</b>	<b>\$ 43,861,565</b>	<b>\$ 32,929,947</b>	<b>\$ 41,263,036</b>

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

**6. Statement of investment policies and procedures**

The investment strategies of the Athlil Gwaii Legacy Trust (the "Trust") are guided by the Statement of Investment Policies and Procedures (SIPP). The SIPP has been written in order to assist the Trustees in establishing the guidelines for the investment of the assets of the Trust (the "Fund") and in monitoring and evaluating the investment performance achieved by the Fund. A summary of the current investment guidelines contained in the SIPP and the current asset mix of the Fund is as follows.

Period end: December 31, 2016

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,614,419	\$ 8,096,630	19%	18%	15%	20%	25%
International equities	12,192,087	18,011,373	36%	41%	28%	33%	38%
Total equities	18,806,506	26,108,003	55%	60%	43%	53%	63%
Real return bonds	4,947,453	5,067,357	14%	12%	10%	15%	20%
Government bonds - Federal	1,731,709	1,711,342	5%	4%			
Government bonds - Provincial and municipal	2,671,607	2,596,465	8%	6%			
Corporate bonds	2,504,471	2,512,602	7%	6%			
Total nominal bonds	6,907,787	6,820,409	20%	16%	12%	17%	22%
High yield bonds	288,890	429,593	1%	1%	0%	5%	10%
Total bonds	12,144,130	12,317,359	35%	28%	22%	37%	52%
Mortgage fund	643,727	653,120	2%	1%			
Real estate funds	2,604,597	4,654,910	8%	11%			
Total mortgage and real estate	3,248,324	5,308,030	9%	12%	5%	10%	15%
Cash	28,232	28,232	0%	0%			
Treasury bills and short term investments	99,941	99,941	0%	0%			
Cash/Short term notes	128,173	128,173	0%	0%	0%	0%	0%
	\$ 34,327,134	\$ 43,861,565	100%	100%	70%	100%	130%

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

**7. Program commitments**

The Athlii Gwaii Legacy Trust funds projects that are in general agreement with its aims and objectives. The balance outstanding represents projects approved by the Trustees which were not completed as at the fiscal year end.

	2016	2015
Committed balance - beginning of year	\$ 50,592	\$ 63,240
Project Revenue / Appropriations		63,240
Subtotal	50,592	63,240
Project Expenditures		(12,648)
Committed balance - end of period	\$ 50,592	\$ 50,592

**8. Investment income**

	2016	2015
Interest income	\$ 354,033	\$ 388,167
Dividend income	248,633	274,934
Other investment income	1,379,182	1,668,111
Realized gain (loss) on investments	480,030	267,532
	\$ 2,461,878	\$ 2,598,744

**9. Restricted net assets**

The Athlii Gwaii Legacy Trust Grant Fund represents the initial endowment of \$24,000,000 received from the Governments of Canada and British Columbia. The Fund is adjusted annually by the inflation rate for the year to protect the value of the original grant for future generations. The fund has been established as a perpetual investment fund and, as such, the original endowment with the accumulated inflation adjustments can never be touched, allocated or expended.

The annual inflation adjustment is based on the Canadian Consumer Price Index (CPI). The change for the year ended December 31, 2016 has been calculated at the CPI index of 1.5% (2015 - 1.6%) for the year.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

**10. Related party transaction**

During the year, administration fees of \$164,000 were paid to the Gwaii Trust Society. These fees represent operating costs paid by the Gwaii Trust Society on behalf of the Athlii Gwaii Legacy Trust. The administration costs have been calculated and allocated as follows to represent the actual costs of operating and administering the Athlii Gwaii Legacy Trust. The Gwaii Trust Society is the trustee of the Athlii Gwaii Legacy Trust.

	2016	2015
Board honoraria	\$ 20,000	\$ 20,000
Meetings	10,000	10,000
Rent and utilities	15,000	15,000
Travel	15,000	15,000
Vehicle expense	4,000	4,000
Wages and benefits	100,000	100,000
	<b>\$ 164,000</b>	<b>\$ 164,000</b>

Balances outstanding consist of the administration fees or other operating costs paid by the Gwaii Trust Society on behalf of the Athlii Gwaii Legacy Trust.

**11. Financial instruments**

The company 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 company's risk exposure and concentration as of December 31, 2016.

**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 market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

**Currency risk**

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The company is exposed to foreign currency exchange risk on cash and investments held in U.S. dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

**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 company manages exposure through its normal operating and financing activities. The company is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2016**

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**11. Financial instruments *(continued)***

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company is exposed to other price risk through its investment in quoted shares.

