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**ATHLII GWAII LEGACY TRUST**  
**Financial Statements**  
**As at December 31, 2015**

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## INDEPENDENT AUDITOR'S REPORT

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To the Trustees of Athlii Gwaii Legacy Trust

We have audited the accompanying financial statements of Athlii Gwaii Legacy Trust, which comprise the statement of financial position as at December 31, 2015 and the statements of revenues and expenditures, 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 Athlii Gwaii Legacy Trust as at December 31, 2015 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.

### Other Matter

The financial statements of Athlii Gwaii Legacy Trust for the year ended December 31, 2014 were audited by McAlpine & Co. of Terrace, BC, prior to its merger with MNP LLP. McAlpine & Co. expressed an unmodified opinion on those statements on February 11, 2016.

Terrace, BC  
February 15, 2016

*MNP* LLP  
Chartered Professional Accountants

**ATHLII GWAII LEGACY TRUST**  
**Statement of Financial Position**  
**As at December 31, 2015**

	2015	2014
<b>Assets</b>		
Current		
Cash	\$ 47,177	\$ 33,240
Investment income receivable	74,289	62,437
Prepaid expenses	628	578
	122,094	96,255
Long term investments (Notes 3, 4, 5)	41,263,036	38,775,965
	<b>\$ 41,385,130</b>	<b>\$ 38,872,220</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 57,539	\$ 46,000
Advances from Gwaii Trust Society	2,363	81,500
	59,902	127,500
Program commitments (Note 6)	50,592	
	110,494	127,500
<b>Net assets</b>		
Unrestricted	13,612,614	11,578,347
Grant Fund	27,662,022	27,166,373
	41,274,636	38,744,720
	<b>\$ 41,385,130</b>	<b>\$ 38,872,220</b>

On behalf of the Board

 Trustee

 Trustee

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Revenues and Expenditures**  
**Year Ended December 31, 2015**

	2015	2014
<b>Income</b>		
Investment income <i>(Note 7)</i>	\$ 2,598,744	\$ 2,657,381
<b>Investment management and regulatory expenses</b>		
Actuary		1,599
Custodial fees	57,584	49,229
Investment management	166,570	164,251
Professional fees	88,076	92,557
Trust protector fees	24,834	40,909
	337,064	348,545
<b>Net trust earnings</b>	2,261,680	2,308,836
<b>Expenses</b>		
Advertising and promotion		1,800
Bank charges	79	189
Honoraria	20,000	15,000
Communication	112	6,388
Insurance	3,970	4,018
Management salaries	100,000	27,500
Meetings and conventions	10,000	3,000
Office and miscellaneous		3,520
Facility costs	15,000	3,600
Supplies		1,900
Travel	15,000	2,400
Vehicle	4,000	1,800
	168,161	71,115
<b>Excess of income over expenses from operations</b>	2,093,519	2,237,721
Grant inflation protection <i>(Note 8)</i>	(495,649)	(401,474)
<b>Excess of income over expenses before program costs and unrealized gains on long term investments</b>	1,597,870	1,836,247
Project commitments	63,240	
<b>Net surplus for the year</b>	1,534,630	1,836,247
Unrealized gains on long term investments	499,637	1,463,670
<b>Comprehensive surplus for the year</b>	\$ 2,034,267	\$ 3,299,917

See notes to financial statements

**ATHLII GWAIL LEGACY TRUST**  
**Statement of Changes in Net Assets**  
**Year Ended December 31, 2015**

	Unrestricted	Grant Fund	2015	2014
<b>Net assets - beginning of year</b>	\$ 11,578,347	\$ 27,166,373	\$ 38,744,720	\$ 35,043,329
Excess of income over expenses	2,034,267		2,034,267	3,299,917
Grant inflation protection		495,649	495,649	401,474
<b>Net assets - end of year</b>	\$ 13,612,614	\$ 27,662,022	\$ 41,274,636	\$ 38,744,720

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Cash Flow**  
**Year Ended December 31, 2015**

	2015	2014
<b>Operating activities</b>		
Excess of income over expenses	\$ 2,034,267	\$ 3,299,917
Item not affecting cash:		
Grant inflation protection	495,649	401,474
	<u>2,529,916</u>	<u>3,701,391</u>
Changes in non-cash working capital:		
Investment income receivable	(11,852)	(6,718)
Accounts payable and accrued liabilities	11,539	(17,848)
Prepaid expenses	(50)	(3)
Advances from (to) Gwaii Trust Society	(79,137)	35,000
	<u>(79,500)</u>	<u>10,431</u>
Cash flow from operating activities	<u>2,450,416</u>	<u>3,711,822</u>
<b>Financing activities</b>		
Program commitments	50,592	
Net change in investments	(2,487,071)	(3,613,497)
Cash flow used by financing activities	<u>(2,436,479)</u>	<u>(3,613,497)</u>
Increase in cash	13,937	98,325
Cash (deficiency) - beginning of year	33,240	(65,085)
Cash - end of year	<u>\$ 47,177</u>	<u>\$ 33,240</u>

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2015**

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**1. Purpose of the organization**

The Athlil 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 Athlil 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 Athlil 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 \$41,263,036 at December 31, 2015 has risen above the the inflation adjusted endowment value of \$27,662,022, the Trustees committed to resuming disbursements of Trust assets for program funding during 2015.

**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 (ASNFPO). 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.

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**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2015**

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

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.

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. Investments**

	2015		2014	
	Cost	Market	Cost	Market
Cash	\$ 32,197	\$ 32,197	\$ 44,467	\$ 44,467
Treasury bills and short term investments	224,805	224,805	474,123	474,123
Federal and Provincial Government bonds	3,980,154	4,014,719	3,710,323	3,844,597
Corporate bonds	7,439,807	7,664,555	7,261,308	7,493,136
Mortgage funds	764,176	785,660	737,533	756,974
Equities	6,363,534	6,867,158	6,437,204	7,859,760
International equities	11,607,676	17,416,619	10,964,627	14,555,766
Equities - real estate investment trusts	2,517,598	4,257,323	2,592,996	3,747,142
	<b>\$ 32,929,947</b>	<b>\$ 41,263,036</b>	<b>\$ 32,222,581</b>	<b>\$ 38,775,965</b>



**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2015**

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

The investment strategies of the Athlii 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, 2015

	Portfolio Value (\$\$)		% of Portfolio		GFCT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,363,534	\$ 6,867,158	19%	17%	15%	20%	25%
International equities	11,607,676	17,416,619	35%	42%	28%	33%	38%
Total equities	17,971,210	24,283,777	55%	59%	43%	53%	63%
Real return bonds	4,559,245	4,611,687	14%	11%	10%	15%	20%
Government bonds - Federal	1,342,173	1,351,279	4%	3%			
Government bonds - Provincial & municipal	2,637,982	2,663,440	8%	6%			
Corporate bonds	2,523,309	2,546,678	8%	6%			
Total nominal bonds	6,503,464	6,561,397	20%	16%	12%	17%	22%
High yield bonds	357,252	506,190	1%	1%	0%	5%	10%
Total bonds	11,419,961	11,679,274	35%	28%	22%	37%	52%
Mortgage fund	764,176	785,660	2%	2%			
Real estate funds	2,517,598	4,257,323	8%	10%			
Total mortgage & real estate	3,281,774	5,042,983	10%	12%	5%	10%	15%
Cash	32,197	32,197	0%	0%			
Treasury bills and short term investments	224,805	224,805	1%	1%			
Cash/Short term notes	257,002	257,002	1%	1%	0%	0%	0%
	\$ 32,929,947	\$ 41,263,036	100%	100%	70%	100%	130%

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2015**

**6. 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.

	2015	2014
Committed balance - beginning of year	\$	\$
Project Revenue / Appropriations	63,240	
Project Expenditures	(12,648)	
Committed balance - end of period	\$ 50,592	\$

**7. Investment income**

	2015	2014
Interest income	\$ 388,167	\$ 552,147
Dividend income	274,934	239,934
Other investment income	1,668,111	1,055,705
Realized gain (loss) on investments	267,532	809,595
	\$ 2,598,744	\$ 2,657,381

**8. Restricted net assets**

The AthlII Gwaii Legacy Trust Investment 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, 2015 has been calculated at the CPI index of 1.6% (2014 - 1.5%) for the year.

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Year Ended December 31, 2015**

**9. 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 Gwaii Forest Charitable Trust. The Gwaii Trust Society is the trustee of the AthlII Gwaii Legacy Trust.

	2015	2014
Advertising and promotion	\$	\$ 1,880
Board honoraria	20,000	15,000
Meetings	10,000	3,000
Office and postage		3,000
Rent and utilities	15,000	3,600
Office supplies		1,900
Telecommunications		6,000
Travel	15,000	2,400
Vehicle expense	4,000	1,800
Wages and benefits	100,000	27,500
	\$ 164,000	\$ 66,080

**10. Financial Instruments**

The organization 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 organization's risk exposure and concentration as of December 31, 2015.

**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 organization is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable 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 organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

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ATHLII GWAII LEGACY TRUST  
Notes to Financial Statements  
Year Ended December 31, 2015

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10. 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 organization is exposed to other price risk through its investment in quoted shares.