

ATHLII GWAI LEGACY TRUST
Financial Statements
As at December 31, 2017

INDEPENDENT AUDITOR'S REPORT

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, 2017 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 Athlii Gwaii Legacy Trust as at December 31, 2017 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 14, 2018, except as to Note 10 which is as of
April 06, 2018.

MNP LLP
Chartered Professional Accountants

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at December 31, 2017

	2017	2016
Assets		
Current		
Cash	\$ 98,766	\$ -
Investment income receivable	59,437	61,026
Prepaid expense	634	632
	158,837	61,658
Long term investments (Notes 4, 5)	46,775,043	43,861,565
	\$ 46,933,880	\$ 43,923,223
Liabilities		
Current		
Bank indebtedness	\$ -	\$ 69,203
Accounts payable and accrued liabilities	57,070	64,416
Advances from Gwaii Trust Society (Note 9)	48,750	2,363
	105,820	135,982
Program commitments (Note 6)	39,915	50,592
	145,735	186,574
Net assets		
Unrestricted	18,240,809	15,721,599
Restricted (Note 8)	28,547,336	28,015,050
	46,788,145	43,736,649
	\$ 46,933,880	\$ 43,923,223

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, 2017

	2017 <i>(Restated)</i>	2016
Revenue		
Investment income <i>(Notes 7, 10)</i>	\$ 3,124,270	\$ 2,461,878
Investment management and regulatory expenses		
Custodial fees	50,560	56,752
Investment management	187,057	169,851
Professional fees	41,637	33,623
Trust protector fees	34,918	11,568
	314,172	271,794
Net trust earnings	2,810,098	2,190,084
Expenses		
Advertising and promotion	221	253
Bank charges	81	67
Honoraria	24,000	20,000
Communication	112	-
Insurance	4,058	4,055
Management salaries	120,000	100,000
Meetings and conventions	12,000	10,000
Facility costs	17,000	15,000
Travel	17,000	15,000
Vehicle	5,000	4,000
	199,472	168,375
Excess of revenue over expenses before unrealized gains on long term investments	2,610,626	2,021,709
Unrealized gains		
Unrealized gains on long term investments	315,812	430,220
Unrealized foreign exchange gains	125,058	10,084
	440,870	440,304
Excess of revenue over expenses for the year	\$ 3,051,496	\$ 2,462,013

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2017

	Unrestricted	Restricted	2017	2016
Net assets - beginning of year	\$ 15,721,599	\$ 28,015,050	\$ 43,736,649	\$ 41,274,636
Excess of revenue over expenses	3,051,496		3,051,496	2,462,013
Grant inflation protection <i>(Note 8)</i>	(532,286)	532,286		
Net assets - end of year	\$ 18,240,809	\$ 28,547,336	\$ 46,788,145	\$ 43,736,649

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Year Ended December 31, 2017

	2017	2016
Operating activities		
Excess of revenue over expenses	\$ 3,051,496	\$ 2,462,013
Changes in non-cash working capital:		
Investment income receivable	1,589	13,263
Accounts payable and accrued liabilities	(7,346)	6,876
Prepaid expenses	(2)	(3)
Advances from (to) Gwaii Trust Society	46,387	-
	40,628	20,136
Cash flow from operating activities	3,092,124	2,482,149
Financing activities		
Program commitments	(10,677)	-
Net change in investments	(2,913,478)	(2,598,529)
Cash flow used by financing activities	(2,924,155)	(2,598,529)
Increase (decrease) in cash	167,969	(116,380)
Cash (deficiency) - beginning of year	(69,203)	47,177
Cash (deficiency) - end of year	\$ 98,766	\$ (69,203)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2017

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 \$46,775,043 at December 31, 2017 has risen above the the inflation adjusted endowment value of \$28,547,336, 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 (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.

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, 2017

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. Investments

	2017		2016	
	Cost	Market	Cost	Market
Cash	\$ 35,602	\$ 35,602	\$ 28,232	\$ 28,232
Treasury bills and short term investments	399,127	399,127	99,941	99,941
Federal and Provincial Government bonds	5,845,144	5,752,995	4,403,316	4,307,807
Corporate bonds	7,797,662	7,859,103	7,740,815	8,009,552
Mortgage funds	408,777	411,332	643,727	653,120
Equities	6,623,422	8,296,095	6,614,419	8,096,630
International equities	11,640,723	18,927,225	12,192,087	18,011,373
Equities - real estate investment trusts	2,561,484	5,093,564	2,604,597	4,654,910
	\$ 35,311,941	\$ 46,775,043	\$ 34,327,134	\$ 43,861,565

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2017

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, 2017

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,623,422	\$ 8,296,095	19%	18%	15%	20%	25%
International equities	11,640,723	18,927,225	33%	40%	28%	33%	38%
Total equities	18,264,145	27,223,320	52%	58%	43%	53%	63%
Real return bonds	5,782,542	5,838,711	16%	12%	10%	15%	20%
Government bonds - Federal	3,336,020	3,290,253	9%	7%			
Government bonds - Provincial and municipal	2,509,125	2,462,742	7%	5%			
Corporate bonds	2,012,449	2,017,655	6%	4%			
Total nominal bonds	7,857,594	7,770,650	22%	17%	12%	17%	22%
High yield bonds	2,670	2,737	0%	0%	0%	5%	10%
Total bonds	13,642,806	13,612,098	39%	29%	22%	37%	52%
Mortgage fund	408,777	411,332	1%	1%			
Real estate funds	2,561,484	5,093,564	7%	11%			
Total mortgage and real estate	2,970,261	5,504,896	8%	12%	5%	10%	15%
Cash	35,602	35,602	0%	0%			
Treasury bills and short term investments	399,127	399,127	1%	1%			
Cash/Short term notes	434,729	434,729	1%	1%	0%	0%	0%
	\$ 35,311,941	\$ 46,775,043	100%	100%	70%	100%	130%

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Notes to Financial Statements
Year Ended December 31, 2017

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.

	2017	2016
Committed balance - beginning of year	\$ 50,592	\$ 50,592
Project Expenditures	(10,677)	
Committed balance - end of period	\$ 39,915	\$ 50,592

7. Investment income

	2017 (restated)	2016
Interest income	\$ 402,090	\$ 354,033
Dividend income	235,750	248,633
Other investment income	2,314,465	1,379,182
Realized gain on investments	171,965	480,030
	\$ 3,124,270	\$ 2,461,878

8. 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, 2017 has been calculated at the CPI index of 1.6% (2016 - 1.5%) for the year.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2017

9. Related party transaction

During the year, administration fees of \$195,000 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.

	2017	2016
Board honoraria	\$ 24,000	\$ 20,000
Meetings	12,000	10,000
Rent and utilities	17,000	15,000
Travel	17,000	15,000
Vehicle expense	5,000	4,000
Wages and benefits	120,000	100,000
	\$ 195,000	\$ 164,000

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.

10. Subsequent error

On April 6, 2018 it was discovered that there had been a reporting error in the investment income as reported on the financial statements containing the audit report dated February 14, 2018. The reports from one of the investment management team had incorrectly classified returns of capital on an investment owned by the Athlii Gwaii Legacy Trust throughout 2017 as investment income. As a result both the investment cost and the interest income as initially reported were overstated by \$1,146,732.

The investment income and unrealized gains as reported on the Statement of Revenues and Expenses as well as the detail in Note 7 have been adjusted accordingly. A summary of the amendments to the Statement of Revenues and Expenses is as follows:

	2017
Investment income - as previously reported	\$ 4,271,002
Reporting error	(1,146,732)
Investment income - as restated	3,124,270
Unrealized gains (losses) as previously reported	(830,920)
Reporting error	1,146,732
Unrealized gains - as restated	315,912
Net change on excess of revenues over expenses	\$ -

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2017

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, 2017.

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.

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.