

**ATHLII GWAII LEGACY TRUST**

**Financial Statements**

**As at June 30, 2014**

*(Unaudited)*

**McAlpine  
& Co. CA<sup>11</sup>**

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CHARTERED ACCOUNTANTS

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## REVIEW ENGAGEMENT REPORT

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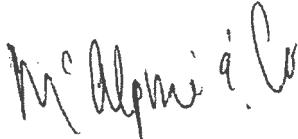
To the Trustees of Athlii Gwaii Legacy Trust

We have reviewed the statement of financial position of Athlii Gwaii Legacy Trust as at June 30, 2014 and the statements of revenues and expenditures, changes in net assets and cash flow for the period then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the trust.

A review does not constitute an audit and, consequently, we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Terrace, B.C.  
July 28, 2014

  
CHARTERED ACCOUNTANTS

**ATHLII GWAII LEGACY TRUST**  
**Statement of Financial Position**  
**As at June 30, 2014**  
*(Unaudited)*

|  | 2014<br><i>(June 30)</i> | 2013<br><i>(December 31)</i> |
|--|--------------------------|------------------------------|
| <b>Assets</b>                              |                          |                              |
| Current                                    |                          |                              |
| Cash                                       | \$ 137,495               | \$ 55,719                    |
| Investment income receivable               | 62,264                   | 55,719                       |
| Prepaid expenses                           | 2,443                    | 575                          |
|  | <b>202,202</b>           | <b>56,294</b>                |
| Long term investments <i>(Notes 3, 4)</i>  | <b>37,120,722</b>        | <b>35,162,468</b>            |
|  | <b>\$ 37,322,924</b>     | <b>\$ 35,218,762</b>         |
| <b>Liabilities</b>                         |                          |                              |
| Current                                    |                          |                              |
| Bank indebtedness                          | \$                       | \$ 65,085                    |
| Accounts payable and accrued liabilities   | 2,500                    | 63,848                       |
| Due to Gwaii Trust Society <i>(Note 8)</i> | 48,500                   | 46,500                       |
|  | <b>51,000</b>            | <b>175,433</b>               |
| <b>Net assets</b>                          |                          |                              |
| Unrestricted                               | 10,301,809               | 8,278,430                    |
| Grant fund <i>(Note 8)</i>                 | 26,970,115               | 26,764,899                   |
|  | <b>37,271,924</b>        | <b>35,043,329</b>            |
|  | <b>\$ 37,322,924</b>     | <b>\$ 35,218,762</b>         |

On behalf of the Board

  
 \_\_\_\_\_ Trustee

  
 \_\_\_\_\_ Trustee

See notes to financial statements

**ATHLII GWAII LEGACY TRUST**  
**Statement of Revenues and Expenditures**  
**Period Ended June 30, 2014**  
*(Unaudited)*

|   | <b>2014</b><br><i>(6 months)</i> | <b>2013</b><br><i>(12 months)</i> |
|---|----------------------------------|-----------------------------------|
| <b>Income</b>   |                                  |                                   |
| Investment income <i>(Note 6)</i>                     | \$ 1,169,512                     | \$ 2,973,256                      |
| <b>Investment management and regulatory expenses</b>  |                                  |                                   |
| Actuary   | 1,599                            | 18,175                            |
| Custodial fees  | 22,265                           | 51,721                            |
| Investment management                                 | 79,755                           | 146,246                           |
| Legal fees  | 43,211                           | 95,643                            |
| Trust protector fees                                  | 22,681                           | 27,968                            |
|   | <b>169,511</b>                   | <b>339,753</b>                    |
| <b>Net trust earnings</b>                             | <b>1,000,001</b>                 | <b>2,633,503</b>                  |
| <b>Expenses</b>                                       |                                  |                                   |
| Accounting and audit fees                             | 3,538                            | 11,977                            |
| Administration fees <i>(Note 8)</i>                   | 33,000                           | 62,000                            |
| Bank charges  | 170                              | 5                                 |
| Communication   | 388                              | 124                               |
| Insurance   | 2,152                            | 3,672                             |
|   | <b>39,248</b>                    | <b>77,778</b>                     |
| <b>Excess of income over expenses from operations</b> | <b>960,753</b>                   | <b>2,555,725</b>                  |
| Grant inflation protection <i>(Note 7)</i>            | <b>(205,216)</b>                 | <b>(317,370)</b>                  |
| Surplus for the period                                | <b>755,537</b>                   | <b>2,238,355</b>                  |
| Unrealized gains on long term investments             | <b>1,267,842</b>                 | <b>1,708,277</b>                  |
| <b>Net surplus for the period</b>                     | <b>\$ 2,023,379</b>              | <b>\$ 3,946,632</b>               |

**ATHLII GWAII LEGACY TRUST**  
**Statement of Changes in Net Assets**  
**Period Ended June 30, 2014**  
*(Unaudited)*

|  | Unrestricted         | Grant<br>Fund        | 2014                 | 2013                 |
|--|----------------------|----------------------|----------------------|----------------------|
| <b>Net assets - beginning of period</b>    | \$ 8,278,430         | \$ 26,764,899        | <b>\$ 35,043,329</b> | \$ 30,779,326        |
| Excess of income over expenses             | 2,023,379            |                      | <b>2,023,379</b>     | 3,946,632            |
| Grant inflation protection <i>(Note 7)</i> |                      | 205,216              | <b>205,216</b>       | 317,370              |
| <b>Net assets - end of period</b>          | <b>\$ 10,301,809</b> | <b>\$ 26,970,115</b> | <b>\$ 37,271,924</b> | <b>\$ 35,043,328</b> |

**ATHLII GWAII LEGACY TRUST****Statement of Cash Flow****Period Ended June 30, 2014***(Unaudited)*

|  | <b>2014</b><br><i>(6 months)</i> | 2013<br><i>(12 months)</i> |
|--|----------------------------------|----------------------------|
| <b>Operating activities</b>                    |                                  |                            |
| Excess of income over expenses                 | \$ 2,023,379                     | \$ 3,946,632               |
| Item not affecting cash:                       |                                  |                            |
| Grant inflation protection                     | 205,216                          | 317,370                    |
|  | <b>2,228,595</b>                 | 4,264,002                  |
| Changes in non-cash working capital:           |                                  |                            |
| Investment income receivable                   | (6,545)                          | 15,948                     |
| Accounts payable and accrued liabilities       | (61,348)                         | 15,675                     |
| Prepaid expenses                               | (1,868)                          | (13)                       |
| Due to Gwaii Trust Society                     | 2,000                            | (14,500)                   |
|  | <b>(67,761)</b>                  | 17,110                     |
| Cash flow from operating activities            | <b>2,160,834</b>                 | 4,281,112                  |
| <b>Financing activity</b>                      |                                  |                            |
| Net change in investments                      | (1,958,254)                      | (4,544,909)                |
| <b>Increase (decrease) in cash flow</b>        | <b>202,580</b>                   | (263,797)                  |
| <b>Cash (deficiency) - beginning of period</b> | <b>(65,085)</b>                  | 198,712                    |
| <b>Cash (deficiency) - end of period</b>       | <b>\$ 137,495</b>                | <b>\$ (65,085)</b>         |

# ATHLII GWAII LEGACY TRUST

## Notes to Financial Statements

Period Ended June 30, 2014

(Unaudited)

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### 1. Purpose of the organization

The Athlii Gwaii Legacy Trust (originally named the Gwaii Forest Charitable 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.

During 2014, in accordance with the provisions of the Deed of Trust, the Trustees have changed the name of the Trust from the Gwaii Forest Charitable Trust to the Athlii Gwaii Legacy Trust. The name has been changed in order to properly reflect the broad purposes of the Trust and to suitably honour the unique place of Athlii Gwaii, also known as Lyell Island, in some of the most important events in the history of Haida Gwaii including the origin of the Trust.

### 2. Future operations

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.

As at June 30, 2014, the market value of the investment portfolio of the Trust of \$37,120,722 had risen above the the inflation adjusted endowment value of \$26,970,115. While the Athlii Gwaii Legacy Trust is currently not in breach of the terms of the Deed of Trust, the Trustees have suspended any further disbursements of Trust assets for program funding until the 2014 fiscal year programming reconfigurations are complete. The Trust will continue to pay such expenses as are required to maintain the Trust and meet all regulatory requirements, either directly or as reimbursement of amounts expended on behalf of the Trust by the Trustees.

### 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.

(continues)

**ATHLII GWAII LEGACY TRUST**  
**Notes to Financial Statements**  
**Period Ended June 30, 2014**  
*(Unaudited)*

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

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.

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**

|   | 2014                 |                      | 2013                 |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | Cost                 | Market               | Cost                 | Market               |
| Cash                                      | \$ 15,974            | \$ 15,974            | \$ 29,228            | \$ 29,228            |
| Treasury bills and short term investments | 249,466              | 249,463              | 114,760              | 114,760              |
| Federal and Provincial Government bonds   | 3,464,453            | 3,520,063            | 3,358,349            | 3,298,456            |
| Corporate bonds                           | 7,427,572            | 7,714,938            | 7,709,244            | 7,633,703            |
| Mortgage funds                            | 741,079              | 756,855              | 727,048              | 731,775              |
| Equities                                  | 5,954,707            | 7,717,382            | 5,899,784            | 7,223,011            |
| International equities                    | 10,836,023           | 13,632,934           | 10,559,078           | 12,736,776           |
| Equities - real estate investment trusts  | 2,613,788            | 3,513,113            | 2,631,610            | 3,394,759            |
|   | <b>\$ 31,303,062</b> | <b>\$ 37,120,722</b> | <b>\$ 31,029,101</b> | <b>\$ 35,162,468</b> |



# ATHLII GWAII LEGACY TRUST

## Notes to Financial Statements

Period Ended June 30, 2014

(Unaudited)

### 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:                               |                        | June 30, 2014 |                |        |                     |        |      |  |  |
|---|------------------------|---------------|----------------|--------|---------------------|--------|------|--|--|
|   | Portfolio Value (\$\$) |               | % of Portfolio |        | AGLT Current SIPP % |        |      |  |  |
|   | Cost                   | Market        | Cost           | Market | Min                 | Target | Max  |  |  |
| Canadian equities                         | \$ 5,954,707           | \$ 7,717,382  | 19%            | 21%    | 15%                 | 20%    | 25%  |  |  |
| International equities                    | 10,836,023             | 13,632,934    | 35%            | 37%    | 28%                 | 33%    | 38%  |  |  |
| Total equities                            | 16,790,730             | 21,350,316    | 54%            | 58%    | 43%                 | 53%    | 63%  |  |  |
| Real return bonds                         | 4,007,899              | 4,064,926     | 13%            | 11%    | 10%                 | 15%    | 20%  |  |  |
| Government bonds - Federal                | 1,179,690              | 1,186,831     | 4%             | 3%     |                     |        |      |  |  |
| Government bonds - Provincial & municipal | 2,284,763              | 2,333,232     | 7%             | 6%     |                     |        |      |  |  |
| Corporate bonds                           | 2,678,877              | 2,727,871     | 9%             | 7%     |                     |        |      |  |  |
| Total nominal bonds                       | 6,143,330              | 6,247,934     | 20%            | 17%    | 12%                 | 17%    | 22%  |  |  |
| High yield bonds                          | 740,796                | 922,141       | 2%             | 2%     | 0%                  | 5%     | 10%  |  |  |
| Total bonds                               | 10,892,025             | 11,235,001    | 35%            | 30%    | 22%                 | 37%    | 52%  |  |  |
| Mortgage fund                             | 741,079                | 756,855       | 2%             | 2%     |                     |        |      |  |  |
| Real estate funds                         | 2,613,788              | 3,513,113     | 8%             | 9%     |                     |        |      |  |  |
| Total mortgage & real estate              | 3,354,867              | 4,269,968     | 11%            | 12%    | 5%                  | 10%    | 15%  |  |  |
| Cash                                      | 15,974                 | 15,974        | 0%             | 0%     |                     |        |      |  |  |
| Treasury bills and short term investments | 249,466                | 249,463       | 1%             | 1%     |                     |        |      |  |  |
| Cash/Short term notes                     | 265,440                | 265,437       | 1%             | 1%     | 0%                  | 0%     | 0%   |  |  |
|   | \$ 31,303,062          | \$37,120,722  | 100%           | 100%   | 70%                 | 100%   | 130% |  |  |

# ATHLII GWAII LEGACY TRUST

## Notes to Financial Statements

Period Ended June 30, 2014

(Unaudited)

### 6. Investment income

|                                     | 2014                | 2013                |
|-------------------------------------|---------------------|---------------------|
| Interest income                     | \$ 216,718          | \$ 510,735          |
| Dividend income                     | 122,153             | 227,418             |
| Other investment income             | 515,783             | 1,780,011           |
| Realized gain (loss) on investments | 314,858             | 455,091             |
|                                     | <b>\$ 1,169,512</b> | <b>\$ 2,973,255</b> |

### 7. 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 period ended June 30, 2014 has been calculated at the average monthly CPI index of 1.8% (2013 - 1.2%) for the period.

### 8. Related party transaction

During the quarter, administration fees of \$16,500 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 Gwaii Trust Society is the trustee of the AthlII Gwaii Legacy Trust.

|                           | 2014             | 2013             |
|---------------------------|------------------|------------------|
| Advertising and promotion | \$ 900           | \$ 1,880         |
| Bank charges              |                  | 620              |
| Board honoraria           | 7,500            | 11,000           |
| Meetings                  | 1,500            | 2,800            |
| Office and postage        | 1,500            | 2,800            |
| Rent and utilities        | 1,800            | 3,600            |
| Office supplies           | 950              | 1,900            |
| Telecommunications        | 3,000            | 5,900            |
| Travel                    | 1,200            | 2,700            |
| Vehicle expense           | 900              | 1,800            |
| Wages and benefits        | 13,750           | 27,000           |
|                           | <b>\$ 33,000</b> | <b>\$ 62,000</b> |

# ATHLII GWAII LEGACY TRUST

## Notes to Financial Statements

Period Ended June 30, 2014

(Unaudited)

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### 9. Financial instruments

The trust 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 trust's risk exposure and concentration as of June 30, 2014.

#### 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 trust 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 trust manages exposure through its normal operating and financing activities. The trust 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 trust is exposed to other price risk through its investment in quoted shares.

### 10. Comparative figures

Some of the comparative figures have been reclassified to conform to the current period's presentation.