

ATHLII GWAII LEGACY TRUST

Financial Statements

As at September 30, 2014

(Unaudited)

McAlpine
& Co. CA¹¹

CHARTERED ACCOUNTANTS

REVIEW ENGAGEMENT REPORT

To the Trustees of Athlii Gwaii Legacy Trust

We have reviewed the statement of financial position of Athlii Gwaii Legacy Trust as at September 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.
October 27, 2014



CHARTERED ACCOUNTANTS

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

	2014 <i>(September 30)</i>	2013 <i>(December 31)</i>
Assets		
Current		
Cash <i>(Note 3)</i>	\$ 79,058	\$ 55,719
Investment income receivable	82,601	55,719
Prepaid expenses	1,510	575
	163,169	56,294
Long term investments <i>(Notes 3, 4)</i>	37,877,350	35,162,468
	\$ 38,040,519	\$ 35,218,762
Liabilities		
Current		
Bank indebtedness	\$	\$ 65,085
Accounts payable and accrued liabilities	2,500	63,848
Due to Gwaii Trust Society <i>(Note 8)</i>	65,000	46,500
	67,500	175,433
Net assets		
Unrestricted	10,876,695	8,278,430
Grant fund <i>(Note 8)</i>	27,096,324	26,764,899
	37,973,019	35,043,329
	\$ 38,040,519	\$ 35,218,762

On behalf of the Board


 _____ Trustee


 _____ Trustee

See notes to financial statements

ATHLII GWAIL LEGACY TRUST
Statement of Revenues and Expenditures
Period Ended September 30, 2014
(Unaudited)

	2014 <i>(9 months)</i>	2013 <i>(12 months)</i>
Income		
Investment income <i>(Note 6)</i>	\$ 1,853,397	\$ 2,973,256
Investment management and regulatory expenses		
Actuary	1,599	18,175
Custodial fees	36,259	51,721
Investment management	121,154	146,246
Legal fees	43,211	95,643
Trust protector fees	22,681	27,968
	224,904	339,753
Net trust earnings	1,628,493	2,633,503
Expenses		
Accounting and audit fees	21,156	11,977
Administration fees <i>(Note 8)</i>	49,500	62,000
Bank charges	175	5
Communication	388	124
Insurance	3,085	3,672
Office and miscellaneous	520	
	74,824	77,778
Excess of income over expenses from operations	1,553,669	2,555,725
Grant inflation protection <i>(Note 7)</i>	(331,425)	(317,370)
Surplus for the period	1,222,244	2,238,355
Unrealized gains on long term investments	1,376,021	1,708,277
Net surplus for the period	\$ 2,598,265	\$ 3,946,632

ATHLII GWAIL LEGACY TRUST
Statement of Changes in Net Assets
Period Ended September 30, 2014
(Unaudited)

	Unrestricted	Grant Fund	2014	2013
Net assets - beginning of period	\$ 8,278,430	\$ 26,764,899	\$ 35,043,329	\$ 30,779,326
Excess of income over expenses	2,598,265		2,598,265	3,946,632
Grant inflation protection <i>(Note 7)</i>		331,425	331,425	317,370
Net assets - end of period	\$ 10,876,695	\$ 27,096,324	\$ 37,973,019	\$ 35,043,328

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

	2014 <i>(9 months)</i>	2013 <i>(12 months)</i>
Operating activities		
Excess of income over expenses	\$ 2,598,265	\$ 3,946,632
Item not affecting cash:		
Grant inflation protection	331,425	317,370
	2,929,690	4,264,002
Changes in non-cash working capital:		
Investment income receivable	(26,882)	15,948
Accounts payable and accrued liabilities	(61,348)	15,675
Prepaid expenses	(935)	(13)
Due to Gwaii Trust Society	18,500	(14,500)
	(70,665)	17,110
Cash flow from operating activities	2,859,025	4,281,112
Financing activity		
Net change in investments	(2,714,882)	(4,544,909)
Increase (decrease) in cash flow	144,143	(263,797)
Cash (deficiency) - beginning of period	(65,085)	198,712
Cash (deficiency) - end of period	\$ 79,058	\$ (65,085)

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

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 September 30, 2014, the market value of the investment portfolio of the Trust of \$37,877,350 had risen above the the inflation adjusted endowment value of \$27,096,324. 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 (ASNFP). 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 September 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	\$ 44,907	\$ 44,907	\$ 29,228	\$ 29,228
Treasury bills and short term investments	324,282	324,282	114,760	114,760
Federal and Provincial Government bonds	3,877,774	3,938,879	3,358,349	3,298,456
Corporate bonds	7,445,313	7,698,844	7,709,244	7,633,703
Mortgage funds	774,436	790,074	727,048	731,775
Equities	5,753,453	7,386,313	5,899,784	7,223,011
International equities	10,888,743	14,053,410	10,559,078	12,736,776
Equities - real estate investment trusts	2,622,246	3,640,642	2,631,610	3,394,759
	\$ 31,731,154	\$ 37,877,351	\$ 31,029,101	\$ 35,162,468

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 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:	September 30, 2014		Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max		
Canadian equities	\$ 5,753,453	\$ 7,386,313	18%	20%	15%	20%	25%		
International equities	10,888,743	14,053,410	34%	37%	28%	33%	38%		
Total equities	16,642,196	21,439,723	52%	57%	43%	53%	63%		
Real return bonds	4,067,411	4,106,934	13%	11%	10%	15%	20%		
Government bonds -									
Federal	1,445,250	1,451,303	5%	4%					
Govt bonds - Provincial & municipal	2,432,524	2,487,576	8%	7%					
Corporate bonds	2,742,408	2,781,074	9%	7%					
Total nominal bonds	6,620,182	6,719,953	21%	18%	12%	17%	22%		
High yield bonds	635,494	810,836	2%	2%	0%	5%	10%		
Total bonds	11,323,087	11,637,723	36%	31%	22%	37%	52%		
Mortgage fund	774,436	790,074	2%	2%					
Real estate funds	2,622,246	3,640,642	8%	10%					
Total mortgage & real est	3,396,682	4,430,716	11%	12%	5%	10%	15%		
Cash	44,907	44,907	0%	0%					
Treasury bills and short term investments	324,282	324,282	1%	1%					
Cash/Short term notes	369,189	369,189	1%	1%	0%	0%	0%		
	\$ 31,731,154	\$ 37,877,351	100%	100%	70%	100%	130%		

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

6. Investment income

	2014	2013
Interest income	\$ 356,208	\$ 510,735
Dividend income	176,637	227,418
Other investment income	736,154	1,780,011
Realized gain (loss) on investments	584,399	455,091
	\$ 1,853,398	\$ 2,973,255

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 September 30, 2014 has been calculated at the average monthly CPI index of 1.9% (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	\$ 1,350	\$ 1,880
Bank charges		620
Board honoraria	11,250	11,000
Meetings	2,250	2,800
Office and postage	2,250	2,800
Rent and utilities	2,700	3,600
Office supplies	1,425	1,900
Telecommunications	4,500	5,900
Travel	1,800	2,700
Vehicle expense	1,350	1,800
Wages and benefits	20,625	27,000
	\$ 49,500	\$ 62,000

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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 September 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.