

ATHLII GWAI LEGACY TRUST

Financial Statements

As at September 30, 2017

(Unaudited)

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, 2017 and the statements of operations, 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, BC
October 26, 2017

MNP LLP
Chartered Professional Accountants

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at September 30, 2017
(Unaudited)

| | September 30 2017 | December 31 2016 |
|---|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash | \$ 182,614 | \$ - |
| Investment income receivable | 77,902 | 61,026 |
| Prepaid expenses | 1,657 | 632 |
| | 262,173 | 61,658 |
| Long term investments <i>(Notes 3, 4, 5)</i> | 44,984,715 | 43,861,565 |
| | \$ 45,246,888 | \$ 43,923,223 |
| Liabilities | | |
| Current | | |
| Bank indebtedness | \$ - | \$ 69,203 |
| Accounts payable and accrued liabilities | 46,999 | 64,416 |
| Advances from Gwaii Trust Society <i>(Note 6)</i> | - | 2,363 |
| | 46,999 | 135,982 |
| Program funding payable <i>(Note 7)</i> | 39,915 | 50,592 |
| | 86,914 | 186,574 |
| Net assets | | |
| Unrestricted | 16,821,109 | 15,721,599 |
| Internally restricted <i>(Note 8)</i> | 28,338,865 | 28,015,050 |
| | 45,159,974 | 43,736,649 |
| | \$ 45,246,888 | \$ 43,923,223 |

On behalf of the Board


 _____ Trustee


 _____ Trustee

See notes to financial statements

ATHLII GWAIL LEGACY TRUST
Statement of Operations
Period Ended September 30, 2017
(Unaudited)

| | September 30 2017 <i>(9 months)</i> | <i>December 31</i> 2016 <i>(12 months)</i> |
|--|---|---|
| Income | | |
| Investment income <i>(Note 9)</i> | \$ 2,922,466 | \$ 2,461,878 |
| Investment management and regulatory expenses | | |
| Custodial fees | 38,989 | 56,752 |
| Investment management | 138,513 | 169,851 |
| Professional fees | 16,916 | 33,623 |
| Trust protector fees | 14,280 | 11,568 |
| | 208,698 | 271,794 |
| Net trust earnings | 2,713,768 | 2,190,084 |
| Expenses | | |
| Advertising and promotion | 221 | 253 |
| Bank charges | 66 | 67 |
| Communication | 112 | - |
| Facility costs | 12,750 | 15,000 |
| Honoraria | 18,000 | 20,000 |
| Insurance | 3,035 | 4,055 |
| Management salaries | 90,000 | 100,000 |
| Meetings and conventions | 9,000 | 10,000 |
| Travel | 12,750 | 15,000 |
| Vehicle | 3,750 | 4,000 |
| | 149,684 | 168,375 |
| Excess of revenue over expenses before unrealized gains (losses) on investments | 2,564,084 | 2,021,709 |
| Unrealized gains (losses) | | |
| Unrealized gains (losses) on long term investments | (888,360) | 430,220 |
| Unrealized foreign exchange gains (losses) | (252,399) | 10,084 |
| | (1,140,759) | 440,304 |
| Excess of revenue over expenses for the period | \$ 1,423,325 | \$ 2,462,013 |

See notes to financial statements

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
For the Period Ended September 30, 2017
(Unaudited)

| | | | <i>September 30</i> | <i>December 31</i> |
|--|----------------------|--------------------------|----------------------|----------------------|
| | Unrestricted | Internally restricted | 2017 | 2016 |
| Net assets - beginning of period | \$ 15,721,599 | \$ 28,015,050 | \$ 43,736,649 | \$ 41,274,636 |
| Excess of revenue over expenses | 1,423,325 | - | 1,423,325 | 2,462,013 |
| Grant inflation protection <i>(Note 8)</i> | (323,815) | 323,815 | - | - |
| Net assets - end of period | \$ 16,821,109 | \$ 28,338,865 | \$ 45,159,974 | \$ 43,736,649 |

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Period Ended September 30, 2017
(Unaudited)

| | September 30 2017 <i>(9 months)</i> | December 31 2016 <i>(12 months)</i> |
|--|---|---|
| Operating activities | | |
| Excess of income over expenses | \$ 1,423,325 | \$ 2,462,013 |
| Changes in non-cash working capital: | | |
| Investment income receivable | (16,876) | 13,263 |
| Accounts payable and accrued liabilities | (17,417) | 6,877 |
| Prepaid expenses | (1,025) | (4) |
| Advances from Gwaii Trust Society | (2,363) | - |
| | (37,681) | 20,136 |
| Cash flow from operating activities | 1,385,644 | 2,482,149 |
| Investing activity | | |
| Net change in investments | (1,123,150) | (2,598,529) |
| Financing activity | | |
| Program funding payable | (10,677) | - |
| Increase (decrease) in cash flow | 251,817 | (116,380) |
| Cash (deficiency) - beginning of period | (69,203) | 47,177 |
| Cash (deficiency) - end of period | \$ 182,614 | \$ (69,203) |

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(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 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.

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 at September 30, 2017 of \$44,984,715 has risen above the the inflation adjusted endowment value of \$28,338,865, the Trustees have 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.

(continues)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(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.

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.

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.

(continues)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(Unaudited)

3. Summary of significant accounting policies (continued)

Program Funding

Program funding for approved projects is recorded as a program funding expense and a related program funding liability at the time of project approval. Any subsequent adjustments or reductions in the specific program funding amounts are recorded as program de-commitments when the final amounts become known.

4. Investments

| | 2017 | | 2016 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Cost | Market | Cost | Market |
| Cash | \$ 39,177 | \$ 39,177 | \$ 28,232 | \$ 28,232 |
| Treasury bills and short term investments | 49,922 | 49,922 | 99,941 | 99,941 |
| Federal and Provincial Government bonds | 5,855,497 | 5,684,547 | 4,403,316 | 4,307,807 |
| Corporate bonds | 7,979,752 | 7,633,958 | 7,740,815 | 8,009,552 |
| Mortgage funds | 406,013 | 407,552 | 643,727 | 653,120 |
| Equities | 6,934,194 | 8,232,108 | 6,614,419 | 8,096,630 |
| International equities | 11,613,816 | 18,030,855 | 12,192,087 | 18,011,373 |
| Equities - real estate investment trusts | 2,588,391 | 4,906,596 | 2,604,597 | 4,654,910 |
| | \$ 35,466,762 | \$ 44,984,715 | \$ 34,327,134 | \$ 43,861,565 |

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(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, 2017

| | Portfolio Value (\$\$) | | % of Portfolio | | AGLT Current SIPP % | | |
|--|------------------------|--------------|----------------|--------|---------------------|--------|------|
| | Cost | Market | Cost | Market | Min | Target | Max |
| Canadian equities | \$ 6,934,194 | \$ 8,232,108 | 20% | 18% | 15% | 20% | 25% |
| International equities | 11,613,816 | 18,030,855 | 33% | 40% | 28% | 33% | 38% |
| Total equities | 18,548,010 | 26,262,963 | 52% | 58% | 43% | 53% | 63% |
| Real return bonds | 5,935,420 | 5,603,151 | 17% | 12% | 10% | 15% | 20% |
| Government bonds - Federal | 3,261,570 | 3,205,904 | 9% | 7% | | | |
| Government bonds - Provincial & municipal | 2,593,928 | 2,478,644 | 7% | 6% | | | |
| Corporate bonds | 2,041,743 | 2,028,107 | 6% | 5% | | | |
| Total nominal bonds | 7,897,241 | 7,712,655 | 22% | 17% | 12% | 17% | 22% |
| High yield bonds | 2,588 | 2,699 | 0% | 0% | 0% | 5% | 10% |
| Total bonds | 13,835,249 | 13,318,505 | 39% | 30% | 22% | 37% | 52% |
| Mortgage fund | 406,013 | 407,552 | 1% | 1% | | | |
| Real estate funds | 2,588,391 | 4,906,596 | 7% | 11% | | | |
| Total mortgage and real estate | 2,994,404 | 5,314,148 | 8% | 12% | 5% | 10% | 15% |
| Cash | 39,177 | 39,177 | 0% | 0% | | | |
| Treasury bills and short term investments | 49,922 | 49,922 | 0% | 0% | | | |
| Cash/Short term notes | 89,099 | 89,099 | 0% | 0% | 0% | 0% | 0% |
| | \$35,466,762 | \$44,984,715 | 100% | 100% | 70% | 100% | 130% |

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(Unaudited)

6. Related party transaction

During the quarter, administration fees of \$48,750 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.

| | <i>September 30</i> 2017 | <i>December 31</i> 2016 |
|--------------------|------------------------------------|-----------------------------------|
| Board honoraria | \$ 18,000 | \$ 20,000 |
| Meetings | 9,000 | 10,000 |
| Rent and utilities | 12,750 | 15,000 |
| Travel | 12,750 | 15,000 |
| Vehicle expense | 3,750 | 4,000 |
| Wages and benefits | 90,000 | 100,000 |
| | \$ 146,250 | \$ 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.

7. Program funding payable

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 period end.

| | <i>September 30</i> 2017 | <i>December 31</i> 2016 |
|---|------------------------------------|-----------------------------------|
| Committed balance - beginning of period | \$ 50,592 | \$ 50,592 |
| Project costs paid during the period | (10,677) | - |
| Committed balance - end of period | \$ 39,915 | \$ 50,592 |

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

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended September 30, 2017
(Unaudited)

9. Investment income

| | <i>September 30</i> 2017 | <i>December 31</i> 2016 |
|-------------------------------------|------------------------------------|-----------------------------------|
| Interest income | \$ 496,844 | \$ 354,033 |
| Dividend income | 173,411 | 248,633 |
| Other investment income | 1,625,814 | 1,379,182 |
| Realized gain (loss) on investments | 626,397 | 480,030 |
| | \$ 2,922,466 | \$ 2,461,878 |

10. 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, 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 trust is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The trust 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.

11. Comparative figures

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