

ATHLII GWAI LEGACY TRUST

Financial Statements

As at June 30, 2018

(Unaudited)

Independent Practitioner's 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 June 30, 2018 and the statements of operations, changes in net assets and cash flow for the period then ended and a summary of significant accounting policies and other explanatory information.

Managements 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 misstatements, where due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of Athlii Gwaii Legacy Trust, as at June 30, 2018, and the results of its operations and its cash flows for the period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Terrace, BC
July 30, 2018

MNP LLP
Chartered Professional Accountants

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at June 30, 2018
(Unaudited)

	2018 <i>(June 30)</i>	2017 <i>(December 31)</i>
Assets		
Current		
Cash	\$ 377,530	\$ 98,766
Investment income receivable	57,245	59,437
Prepaid expenses	2,681	634
	437,456	158,837
Long term investments <i>(Notes 4, 5)</i>	47,475,843	46,775,043
	\$ 47,913,299	\$ 46,933,880
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 49,400	\$ 57,070
Advances from Gwaii Trust Society <i>(Note 6)</i>	48,750	48,750
	98,150	105,820
Program funding payable <i>(Note 7)</i>	39,915	39,915
	138,065	145,735
Net assets		
Unrestricted	18,914,838	18,240,809
Restricted <i>(Note 8)</i>	28,860,396	28,547,336
	47,775,234	46,788,145
	\$ 47,913,299	\$ 46,933,880

On behalf of the Board


 _____ Trustee


 _____ Trustee

See notes to financial statements

ATHLII GWAIL LEGACY TRUST
Statement of Operations
Period Ended June 30, 2018
(Unaudited)

	2018 <i>(6 months)</i>	2017 <i>(12 months)</i>
Income		
Investment income <i>(Note 9)</i>	\$ 2,096,297	\$ 3,124,270
Investment management and regulatory expenses		
Custodial fees	22,647	50,560
Investment management	94,910	187,057
Professional fees	16,546	41,637
Trust protector fees	-	34,918
	134,103	314,172
Net trust earnings	1,962,194	2,810,098
Expenses		
Advertising and promotion	402	221
Bank charges	36	81
Communication	112	112
Facility costs	8,500	17,000
Honoraria	12,000	24,000
Insurance	2,013	4,058
Management salaries	60,000	120,000
Meetings and conventions	6,000	12,000
Travel	8,500	17,000
Vehicle	2,500	5,000
	100,063	199,472
Excess of revenue over expenses before unrealized gains (losses) on investments	1,862,131	2,610,626
Unrealized gains (losses)		
Unrealized gains (losses) on long term investments	(1,122,394)	315,812
Unrealized foreign exchange gains (losses)	247,352	125,058
	(875,042)	440,870
Excess of revenue over expenses for the period	\$ 987,089	\$ 3,051,496

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
For the Period Ended June 30, 2018
(Unaudited)

	Unrestricted	Internally restricted	2018 <i>(June 30)</i>	2017 <i>(December 31)</i>
Net assets - beginning of period	\$ 18,240,809	\$ 28,547,336	\$ 46,788,145	\$ 43,736,649
Excess of revenue over expenses	987,089	-	987,089	3,051,496
Grant inflation protection <i>(Note 8)</i>	(313,060)	313,060	-	-
Net assets - end of period	\$ 18,914,838	\$ 28,860,396	\$ 47,775,234	\$ 46,788,145

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Period Ended June 30, 2018
(Unaudited)

	2018 <i>(6 months)</i>	2017 <i>(12 months)</i>
Operating activities		
Excess of revenue over expenses	\$ 987,089	\$ 3,051,496
Changes in non-cash working capital:		
Investment income receivable	2,192	1,589
Accounts payable and accrued liabilities	(7,671)	(7,346)
Prepaid expenses	(2,047)	(2)
Advances from Gwaii Trust Society	-	46,387
	(7,526)	40,628
Cash flow from operating activities	979,563	3,092,124
Investing activity		
Net change in investments	(700,799)	(2,913,478)
Financing activity		
Program funding payable	-	(10,677)
Increase in cash flow	278,764	167,969
Cash (deficiency) - beginning of period	98,766	(69,203)
Cash - end of period	\$ 377,530	\$ 98,766

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018
(Unaudited)

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.

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.

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.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018
(Unaudited)

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

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 June 30, 2018 of \$47,475,842 has risen above the the inflation adjusted endowment value of \$28,860,396, 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.

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.

(continues)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018
(Unaudited)

4. Investments

	2018 <i>(June 30)</i>		2017 <i>(December 31)</i>	
	Cost	Market	Cost	Market
Cash	\$ 114,561	\$ 114,561	\$ 35,602	\$ 35,602
Treasury bills and short term investments	663,531	663,531	399,127	399,127
Federal and Provincial Government bonds	4,975,159	4,876,655	5,845,144	5,752,995
Corporate bonds	8,577,172	8,743,821	7,797,662	7,859,103
Mortgage funds	374,933	376,192	408,777	411,332
Equities	6,740,333	8,292,864	6,623,422	8,296,095
International equities	12,353,487	19,038,191	11,640,723	18,927,225
Equities - real estate investment trusts	2,619,160	5,370,028	2,561,484	5,093,564
	\$ 36,418,336	\$ 47,475,843	\$ 35,311,941	\$ 46,775,043

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018

(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, 2018

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,740,333	\$ 8,292,864	19%	17%	15%	20%	25%
International equities	12,353,487	19,038,191	34%	40%	28%	33%	48%
Total equities	19,093,820	27,331,055	52%	58%	43%	53%	73%
Real return bonds	5,862,389	6,042,574	16%	13%	5%	6%	20%
Government bonds - Federal	2,619,994	2,585,805	7%	5%			
Government bonds - Provincial & municipal	2,355,165	2,290,850	6%	5%			
Corporate bonds	2,712,049	2,698,495	7%	6%			
Total nominal bonds	7,687,208	7,575,150	21%	16%	12%	17%	22%
High yield bonds	2,734	2,752	0%	0%	0%	5%	10%
Global Bonds	-	-	0%	0%	0%	5%	5%
Total bonds	13,552,331	13,620,476	37%	29%	17%	33%	57%
Mortgage fund	374,933	376,192	1%	1%			
Real estate funds	2,619,160	5,370,028	7%	11%			
Total mortgage and real estate	2,994,093	5,746,220	8%	12%	5%	10%	22%
Private Placement	-	-	0%	0%	0%	4%	10%
Cash	114,561	114,561	0%	0%			
Treasury bills and short term investments	663,531	663,531	2%	1%			
Cash/Short term notes	778,092	778,092	2%	2%	0%	0%	5%
	\$36,418,336	\$47,475,843	100%	100%	65%	100%	167%

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018
(Unaudited)

6. Related party transaction

During the quarter, administration fees of \$48,750 (\$97,500 year to date) 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.

	2018 <i>(June 30)</i>	2017 <i>(December 31)</i>
Board honoraria	\$ 12,000	\$ 24,000
Meetings	6,000	12,000
Rent and utilities	8,500	17,000
Travel	8,500	17,000
Vehicle expense	2,500	5,000
Wages and benefits	60,000	120,000
	\$ 97,500	\$ 195,000

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.

	2018 <i>(June 30)</i>	2017 <i>(December 31)</i>
Committed balance - beginning of period	\$ 39,915	\$ 50,593
Project costs paid during the period	-	(10,678)
Committed balance - end of period	\$ 39,915	\$ 39,915

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 June 30, 2018 has been calculated at the average monthly CPI index of 2.2% (2017 - 1.9%) for the period.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2018
(Unaudited)

9. Investment income

	2018 <i>(June 30)</i>	2017 <i>(December 31)</i>
Interest income	\$ 200,626	\$ 402,090
Dividend income	216,878	235,750
Other investment income	1,669,317	2,314,465
Realized gain on investments	9,476	171,965
	\$ 2,096,297	\$ 3,124,270

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 June 30, 2018.

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.