

ATHLII GWAI LEGACY TRUST

Financial Statements

As at June 30, 2019

(Unaudited)

Independent Practitioner's Review Engagement Report

To the Trustees of Athlii Gwaii Legacy Trust:

We have reviewed the accompanying financial statements of Athlii Gwaii Legacy Trust that comprise the statement of financial position as at June 30, 2019, and the statements of revenue and expenses, changes in net assets and cash flows for the period 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.

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, 2019, 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, British Columbia

July 30, 2019

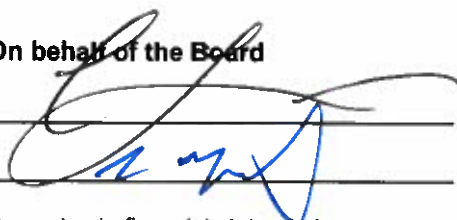
MNP LLP

Chartered Professional Accountants

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at June 30, 2019
(Unaudited)

	2019 <i>(June 30)</i>	2018 <i>(December 31)</i>
Assets		
Current		
Cash	\$ 735,476	\$ 177,811
Investment income receivable	62,330	58,751
Prepaid expense	2,681	634
	800,487	237,196
Long term investments (Notes 4, 5)	48,889,209	45,602,951
	\$ 49,689,696	\$ 45,840,147
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 71,015	\$ 85,748
Advances from Gwaii Trust Society (Note 6)	49,376	48,750
	120,391	134,498
Program funding payable (Note 7)	39,915	39,915
	160,306	174,413
Net assets		
Unrestricted	20,148,070	16,547,451
Restricted (Note 8)	29,381,320	29,118,283
	49,529,390	45,665,734
	\$ 49,689,696	\$ 45,840,147

On behalf of the Board


 _____ Trustee
 _____ Trustee

See notes to financial statements

ATHLII GWAII LEGACY TRUST
Statement of Revenues and Expenses
Period Ended June 30, 2019
(Unaudited)

	2019 <i>(6 months)</i>	2018 <i>(12 months)</i>
Revenue		
Investment income <i>(Note 9)</i>	\$ 1,935,339	\$ 3,468,510
Investment management and regulatory expenses		
Custodial fees	19,356	44,763
Investment management	94,767	193,572
Professional fees	18,920	31,604
Trust protector fees	12,000	24,818
	145,043	294,757
Net trust earnings	1,790,296	3,173,753
Expenses		
Advertising and promotion	2,700	402
Bank charges	544	65
Honoraria	10,000	24,000
Communication	112	112
Insurance	2,013	4,060
Management salaries	62,500	120,000
Meetings and conventions	8,126	12,000
Facility costs	7,500	17,000
Travel	5,000	17,000
Vehicle	2,000	5,000
	100,495	199,639
Excess of revenue over expenses before unrealized gains on long term investments	1,689,801	2,974,114
Unrealized gains (losses)		
Unrealized gains (losses) on long term investments	2,229,526	(4,444,738)
Unrealized foreign exchange gains (losses)	(55,671)	348,213
	2,173,855	(4,096,525)
Excess (deficiency) of revenue over expenses for the period	\$ 3,863,656	\$ (1,122,411)

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
Period Ended June 30, 2019
(Unaudited)

	Unrestricted	Restricted	2019 <i>(June 30)</i>	2018 <i>(December 31)</i>
Net assets - beginning of period	\$ 16,547,451	\$ 29,118,283	\$ 45,665,734	\$ 46,788,145
Excess (deficiency) of revenue over expenses	3,863,656	-	3,863,656	(1,122,411)
Grant inflation protection <i>(Note 8)</i>	(263,037)	263,037	-	-
Net assets - end of period	\$ 20,148,070	\$ 29,381,320	\$ 49,529,390	\$ 45,665,734

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Period Ended June 30, 2019
(Unaudited)

	2019 <i>(6 months)</i>	2018 <i>(12 months)</i>
Operating activities		
Excess (deficiency) of revenue over expenses	\$ 3,863,656	\$ (1,122,411)
Changes in non-cash working capital:		
Investment income receivable	(3,580)	685
Accounts payable and accrued liabilities	(14,732)	28,679
Prepaid expenses	(2,047)	-
Advances from (to) Gwaii Trust Society	626	-
	(19,733)	29,364
Cash flow from (used by) operating activities	3,843,923	(1,093,047)
Financing activity		
Net change in investments	(3,286,258)	1,172,092
Increase in cash	557,665	79,045
Cash - beginning of period	177,811	98,766
Cash - end of period	\$ 735,476	\$ 177,811

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Period Ended June 30, 2019

(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 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 \$48,889,209 at June 30, 2019 has risen above the the inflation adjusted endowment value of \$29,381,320, 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 (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.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2019
(Unaudited)

3. Summary of significant accounting policies (continued)

Financial instruments policy

The Trust recognizes its financial instruments when the Trust becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with Section 3840 Related Party Transactions (refer to Note 6).

At initial recognition, the Trust may irrevocably elect to subsequently measure any financial instrument at fair value. The Trust has not made such an election during the year.

The Trust subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship or that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, at fair value. Fair value is determined by published price quotations. Investments in equity instruments not quoted in an active market and derivatives that are linked to, and must be settled by delivery of, unquoted equity instruments of another entity, are subsequently measured at cost less impairment. With the exception of financial liabilities indexed to a measure of the Trust's performance or value of its equity and those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in the excess (deficiency) of revenues over expenses for the current period. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

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.

Program funding

Program funding for approved projects is recorded as a program funding expense and 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, 2019
(Unaudited)

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the year in which they become known.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2019
(Unaudited)

4. Investments

	<i>June 30</i> 2019		<i>December 31</i> 2018	
	Cost	Market	Cost	Market
Cash	\$ 125,091	\$ 125,091	\$ 80,191	\$ 80,191
Treasury bills and short term investments	498,014	498,014	821,964	821,964
Federal and Provincial Government bonds	4,950,792	5,082,362	4,423,210	4,330,713
Corporate bonds	8,438,284	8,806,258	8,948,213	8,744,864
Mortgage funds	388,232	395,132	380,986	386,028
Equities	7,202,146	8,837,237	7,320,809	7,876,829
International equities	13,095,277	18,080,767	13,025,894	16,728,522
Equities - real estate investment trusts	3,204,658	7,064,348	3,274,041	6,633,840
	\$ 37,902,494	\$ 48,889,209	\$ 38,275,308	\$ 45,602,951

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Period Ended June 30, 2019

(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, 2019

	Portfolio Value (\$\$)		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 7,202,146	\$ 8,837,237	19%	18%	15%	20%	25%
International equities	13,095,277	18,080,767	35%	37%	28%	33%	48%
Total equities	20,297,423	26,918,004	54%	55%	43%	53%	73%
Real return bonds	5,734,151	6,011,287	15%	12%	5%	6%	20%
Government bonds - Federal	2,289,045	2,331,104	6%	5%			
Government bonds - Provincial and municipal	2,661,747	2,751,258	7%	6%			
Corporate bonds	2,701,661	2,792,479	7%	6%			
Total nominal bonds	7,652,453	7,874,841	20%	16%	12%	17%	22%
High yield bonds	2,472	2,492	0%	0%	0%	5%	10%
Global bonds	-	-	0%	0%	0%	5%	5%
Total bonds	13,389,076	13,888,620	35%	28%	17%	33%	57%
Mortgage fund	388,232	395,132	1%	1%			
Real estate funds	3,204,658	7,064,348	8%	14%			
Total mortgage and real estate	3,592,890	7,459,480	9%	15%	5%	10%	22%
Private Placement	-	-	0%	0%	0%	4%	10%
Cash	125,091	125,091	0%	0%			
Treasury bills and short term investments	498,014	498,014	1%	1%			
Cash/Short term notes	623,105	623,105	2%	1%	0%	0%	5%
	\$ 37,902,494	\$ 48,889,209	100%	100%	65%	100%	167%

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2019
(Unaudited)

6. Related party transaction

During the period administration fees of \$97,500 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 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.

	<i>June 30</i> 2019	<i>December 31</i> 2018
Advertising and promotion	\$ 2,500	\$
Bank charges	500	
Board honoraria	10,000	24,000
Meetings	7,500	12,000
Rent and utilities	7,500	17,000
Travel	5,000	17,000
Vehicle expense	2,000	5,000
Wages and benefits	62,500	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 fiscal year end.

	<i>June 30</i> 2019	<i>December 31</i> 2018
Committed balance - end of period	\$ 39,915	\$ 39,915

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 period ended June 30, 2019 has been calculated at the CPI index of 2.0% (2018 - 2.0%) for the period.

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Period Ended June 30, 2019
(Unaudited)

9. Investment income

	<i>June 30</i> 2019 <i>(6 months)</i>	<i>December 31</i> 2018 <i>(12 months)</i>
Interest income	\$ 250,881	\$ 483,231
Dividend income	140,899	374,422
Other investment income	1,484,696	2,487,958
Realized gain on investments	58,863	122,900
	\$ 1,935,339	\$ 3,468,511

10. 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 June 30, 2019.

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

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust enters into transactions to denominated in United States currency for which the related revenues, expenses, accounts receivable and accounts payable balances are subject to exchange rate fluctuations.

During the period, the value of the Canadian dollar appreciated by \$0.055 against the US dollar. The Trust has significant investments in US dollars. As a result, the change in the exchange rate has increased the Trust's foreign currency risk exposure, resulting in an increase of \$55,671 in unrealized foreign exchange losses.

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. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Trust is exposed to interest rate cash flow risk with respect to it's investment portfolio.

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.

