

ATHLII GWAI LEGACY TRUST
Financial Statements - September 30, 2022
(Unaudited)

Review Engagement Report
Statement of Financial Position
Statement of Changes in Net Assets
Statement of Revenues and Expenses
Statement of Cash Flows
Notes to Financial Statements



INDEPENDENT PRACTITIONERS' REVIEW ENGAGEMENT REPORT

To the Trustees of Athlii Gwaii Legacy Trust

We have reviewed the accompanying financial statements of Athlii Gwaii Legacy Trust (the "Trust") that comprise the statement of financial position as at September 30, 2022 and the statements of changes in net assets, revenues and expenses, and cash flows for the nine month 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.

Practitioners' 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 statement of financial position of Athlii Gwaii Legacy Trust as at September 30, 2022, and the results of its operations and its cash flows for the nine month period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 2 of the financial statements which describes the Trust's intention to transfer all assets of the Trust to the Gwaii Trust Society (the "Society") and dissolve the Trust. At the date of this report, it is not determinable when the transfer of assets to the Society will occur as well as when the dissolution of the Trust will occur as it is dependant on outside parties.

Chan Nowosad Boates Inc

Chartered Professional Accountants
Campbell River, BC

October 27, 2022

ATHLII GWAII LEGACY TRUST

Statement of Financial Position

(Unaudited)
September 30, 2022

	September 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash	\$ 300,863	\$ 337,799
Prepaid Expenses	<u>2,909</u>	<u>1,012</u>
	303,772	338,811
Long Term Investments (Notes 4 and 5)	<u>55,685,427</u>	<u>59,963,121</u>
	<u>\$ 55,989,199</u>	<u>\$ 60,301,932</u>
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 94,699	\$ 96,249
Advances from Gwail Trust Society (Note 6)	<u>62,500</u>	<u>62,500</u>
	<u>157,199</u>	<u>158,749</u>
NET ASSETS		
Unrestricted Net Assets	22,774,291	28,737,561
Internally Restricted Net Assets (Note 7)	<u>33,057,709</u>	<u>31,405,622</u>
	<u>55,832,000</u>	<u>60,143,183</u>
	<u>\$ 55,989,199</u>	<u>\$ 60,301,932</u>

Approved by the Trust:

DocuSigned by:
Maureen Bailey
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Trustee

DocuSigned by:
Freda Davis
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Trustee

ATHLII GWAII LEGACY TRUST

Statement of Changes in Net Assets

(Unaudited)

For the 9 Month Period Ended September 30, 2022

September 30, December 31,
2022 2021

(With comparative figures for the year ended December 31, 2021)

	Unrestricted	Restricted	Total	Total
Beginning Net Assets	\$ 28,737,561	\$ 31,405,622	\$ 60,143,183	\$ 54,124,103
Excess (Deficiency) of Revenues over Expenses	(4,311,183)	-	(4,311,183)	6,019,080
Grant Inflation Protection	<u>(1,652,087)</u>	<u>1,652,087</u>	<u>-</u>	<u>-</u>
Ending Net Assets	<u>\$ 22,774,291</u>	<u>\$ 33,057,709</u>	<u>\$ 55,832,000</u>	<u>\$ 60,143,183</u>

ATHLII GWAII LEGACY TRUST

Statement of Revenues and Expenses

(Unaudited)

For the 9 Month Period Ended September 30, 2022

	September 30, 2022	December 31, 2021
<i>(With comparative figures for the year ended December 31, 2021)</i>		
Revenue		
Investment Income (Note 8)	\$ 1,221,611	\$ 2,687,007
Investment Management and Regulatory Expenses		
Custodial Fees	19,694	24,915
Investment Management	177,092	250,127
Professional Fees	73,778	108,622
Trust Protector Fees	7,022	21,802
	<u>277,586</u>	<u>405,466</u>
Net Trust Earnings	<u>944,025</u>	<u>2,281,541</u>
Expenses		
Advertising and Promotion	3,750	5,000
Bank Charges	56	354
Honoraria	12,187	16,250
Insurance	5,084	5,883
Management Salaries	130,312	173,750
Meetings and Conventions	18,750	25,000
Office and Facility Costs	12,902	17,000
Supplies	4,313	5,750
Travel	3,750	5,000
Vehicle	1,688	2,250
	<u>192,792</u>	<u>256,237</u>
Excess of Revenues over Expenses from Operations	<u>751,233</u>	<u>2,025,304</u>
Other Income (Expenditures)		
Unrealized Gains (Losses) on Long Term Investments	(5,591,156)	3,998,615
Unrealized Foreign Exchange Gains (Losses)	528,740	(10,197)
Program Decommittments	-	5,358
	<u>(5,062,416)</u>	<u>3,993,776</u>
Excess (Deficiency) of Revenues over Expenses	<u>\$ (4,311,183)</u>	<u>\$ 6,019,080</u>

ATHLII GWAII LEGACY TRUST

Statement of Cash Flows

(Unaudited)

For the 9 Month Period Ended September 30, 2022

	September 30, 2022	December 31, 2021
<i>(With comparative figures for the year ended December 31, 2021)</i>		
Cash Flows From Operating Activities:		
Excess (Deficiency) of Revenues over Expenses	\$ (4,311,183)	\$ 6,019,080
Changes in Non-Cash Working Capital		
Payment of Program Commitments	-	(39,915)
Accounts Payable and Accrued Liabilities	(1,550)	(21,792)
Prepaid Expenses	(1,897)	(188)
Advances from Gwaii Trust Society	-	60,400
	<u>(4,314,630)</u>	<u>6,017,585</u>
Cash Flows From Financing Activities:		
Net Change in Investments	<u>4,277,694</u>	<u>(6,101,105)</u>
Net Decrease in Cash	(36,936)	(83,520)
Cash - Beginning of Period	<u>337,799</u>	<u>421,319</u>
Cash - End of Period	<u>\$ 300,863</u>	<u>\$ 337,799</u>

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

1. Purpose of the Organization:

The Athlii Gwaii Legacy Trust (the "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 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 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 Trust is required to maintain, at a minimum, funds equal to the initial endowment of \$24,000,000 adjusted for inflation annually.

As the market value of the investment portfolio of the Trust of \$55,685,427 at September 30, 2022 has risen above the inflation adjusted endowment value of \$33,057,709, the Trustees of the Trust are able to disburse funds to programs as they see appropriate.

On June 1, 2020, the Trust received correspondence from the Ministry of Forests, Lands, Natural Resource Operations and Rural Development of the Province of British Columbia. The correspondence detailed that the Province of British Columbia agrees with a strategy proposed by the Trust to transfer the net assets of the Trust to the Gwaii Trust Society Fund, a fund managed and owned by the Gwaii Trust Society (the "Society"). The next steps in the process to transfer the net assets and ultimately dissolve the Trust involve confirmation of support of the Federal Ministers of Natural Resources Canada and Environment and Climate Change Canada, followed by amendments to the appropriate legislation in British Columbia. The Trust more recently has been in discussion with the Province of British Columbia whereby a legislative process was outlined that would see the necessary legislation passed in the fall of 2023 to enable the transfer of the net assets of the Trust to the Society. The outline provided is not considered to be definitive or certain.

The timing of the above described next steps to be taken to transfer the net assets of the Trust to the Society is indeterminable at the date of these financial statements and the financial statements continue to be presented on a going concern basis.

3. Summary of Significant Accounting Policies:

Basis of Presentation

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

Financial Instruments

The Trust recognizes its financial instruments when it 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 Part II of the CPA Canada Handbook - Accounting, Section 3840 Related Party Transactions (Note 6).

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

3. Summary of Significant Accounting Policies (continued):

Financial Instruments (continued)

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 period. 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.

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 period 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 period.

Foreign exchange gains and losses on monetary assets and liabilities are included in the determination of earnings.

Revenue Recognition

The Trust follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the period 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.

Investment income is recognized as revenue as earned by way of dividend or interest or upon the completion of a transaction resulting in a realized gain on the disposition of investments.

Measurement Uncertainty

The preparation of financial statements in conformity with ASNPO 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 the statement of revenues and expenses in the period in which they become known.

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

4. Long Term Investments:

	September 30, 2022		December 31, 2021	
	Cost	Market	Cost	Market
Cash	\$ 7,332	\$ 7,332	\$ 68,615	\$ 68,657
Treasury Bills and Short Term Investments	367,530	367,530	315,671	315,671
Corporate Bonds	19,043,972	16,606,210	17,666,010	17,531,289
Canadian Equities	9,204,980	10,594,917	9,642,579	12,012,805
International Equities	14,047,055	17,959,158	14,027,309	21,393,002
Equities - REITs	<u>3,837,310</u>	<u>10,150,280</u>	<u>3,785,860</u>	<u>8,641,697</u>
	<u>\$ 46,508,179</u>	<u>\$ 55,685,427</u>	<u>\$ 45,506,044</u>	<u>\$ 59,963,121</u>

5. Statement of Investment Policies and Procedures:

The Trust's investment strategies are guided by the Statement of Investment Policies and Procedures (the "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 Trust. A summary of the current investment guidelines contained in the SIPP and the current asset mix at September 30, 2022 is as follows:

	Portfolio Value		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min.	Target	Max.
Canadian Equities	\$ 9,204,980	\$ 10,594,917	20%	19%	15%	20%	25%
International Equities	<u>14,047,055</u>	<u>17,959,158</u>	<u>30%</u>	<u>32%</u>	<u>28%</u>	<u>33%</u>	<u>48%</u>
Total Equities	<u>23,252,035</u>	<u>28,554,075</u>	<u>50%</u>	<u>51%</u>	<u>43%</u>	<u>53%</u>	<u>73%</u>
Real Return Bonds	2,956,435	2,821,026	6%	5%	5%	16%	35%
Nominal Bonds	<u>16,087,537</u>	<u>13,785,184</u>	<u>35%</u>	<u>25%</u>	<u>12%</u>	<u>17%</u>	<u>22%</u>
Total Bonds	<u>19,043,972</u>	<u>16,606,210</u>	<u>41%</u>	<u>30%</u>	<u>17%</u>	<u>33%</u>	<u>57%</u>
Total Real Estate and Mortgages	<u>3,837,310</u>	<u>10,150,280</u>	<u>8%</u>	<u>18%</u>	<u>5%</u>	<u>10%</u>	<u>22%</u>
Total Cash, Treasury Bills and Short Term Investments	<u>374,862</u>	<u>374,862</u>	<u>1%</u>	<u>1%</u>	<u>0%</u>	<u>0%</u>	<u>5%</u>
Total	<u>\$ 46,508,179</u>	<u>\$ 55,685,427</u>	<u>100%</u>	<u>100%</u>			

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

6. Advances from Gwaii Trust Society:

During the period, administration fees of \$187,500 were charged by the Society. These fees represent operating costs paid by the Society on behalf of the Trust. The administration costs have been calculated and allocated as follows to represent the actual costs of operating and administering the Trust. The Society is a trustee of the Trust.

The administrative fee breakdown for the period ended September 30, 2022 is as follows:

	September 30, <u>2022</u>	December 31, <u>2021</u>
Advertising and Promotion	\$ 3,750	\$ 5,000
Community Consultation	15,000	20,000
Honoraria	12,187	16,250
Meetings	3,750	5,000
Office and Facility Costs	12,750	17,000
Supplies	4,313	5,750
Travel	3,750	5,000
Vehicle	1,688	2,250
Wages and Benefits	<u>130,312</u>	<u>173,750</u>
	<u>\$ 187,500</u>	<u>\$ 250,000</u>

Balances outstanding consisted of the administration fees or other operating costs paid by the Society on behalf of the Trust and bear no interest nor had stated terms of repayment, and are considered to be current and payable when services are rendered.

7. Internally Restricted Net Assets:

The Trust's Internally Restricted Net Assets represents the initial endowment of \$24,000,000 received from the Governments of Canada and British Columbia. The amount is adjusted annually by the inflation rate for the period to protect the value of the original grant for future generations. The amount received 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, 2022 has been calculated at the average CPI of 6.84% (2021 - 4.8%).

8. Investment Income:

	September 30, <u>2022</u>	December 31, <u>2021</u>
Interest Income	\$ 476,502	\$ 522,719
Dividend Income	304,634	921,733
Realized Gain on Investments	<u>440,475</u>	<u>1,242,555</u>
	<u>\$ 1,221,611</u>	<u>\$ 2,687,007</u>

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

9. Risk Management:

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, 2022.

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 US Dollar denominated transactions 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 depreciated by \$0.0592 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 \$528,740 in unrealized foreign exchange gains.

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 its 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 Trust is exposed to other price risk through its investment in quoted shares.

10. Subsequent Event:

During the year ended December 31, 2021, the Trust determined that it would re-evaluate its investment mix and investment managers.

As of September 30, 2022, Phillips, Hager & North Investment Funds Ltd. ("PH&N"), Nicola Wealth, Northleaf Senior Private Capital LP and Axium Infrastructure Inc. have been selected as the Trust's investment managers going forward.

An agreement has been signed with Northleaf Senior Private Capital LP effective September 30, 2022 for the management of investments in the new Direct Lending and Infrastructure categories. An agreement for the management of Infrastructure investments has been negotiated with Axium Infrastructure Inc., but this agreement had not yet been signed as of September 30, 2022 nor at the date of the issuance of these financial statements. Agreements with PH&N and Nicola Wealth already exist.

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

(Unaudited)

9 month period ended September 30, 2022

(With comparative figures for the year ended December 31, 2021)

10. Subsequent Event (continued):

The Trust expects to change the asset mix within its investment portfolio and transfer funds to the new investments beginning in November 2022. This transfer is expected to take up to 2 years to complete due to the nature of the Direct Lending and Infrastructure investment portfolios.

This change is expected to have the following impact on future financial statements of the Trust:

- Unrealized gains and losses on certain investments will be realized;
- Presentation of the asset mix in Note 4 and Note 5 will include the new asset portfolios;
- The SIPP disclosed in Note 5 will be updated to reflect the new asset mix.