

ATHLII GWAII LEGACY TRUST
Financial Statements
December 31, 2022

Independent Auditors' 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 AUDITORS' REPORT

To the Trustees of the Athlii Gwaii Legacy Trust,

Opinion

We have audited the financial statements of the Athlii Gwaii Legacy Trust (the "Trust"), which comprise the statement of financial position as at December 31, 2022, and the statements of changes in net assets, revenues and expenses, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2022, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 of the financial statements which describes the intention of the Trustees of the Trust to transfer all of the assets of the Trust to the Gwaii Trust Society (the "Society") and dissolve the Trust. At the date of this report, it is expected that the dissolution of the Trust will occur in late 2023, though an exact date for the dissolution of the Trust and the transfer of assets to the Society is not determinable, as it is dependent on outside parties. These financial statements have been prepared using a liquidation basis of accounting.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

In preparing the financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends for the Trust to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chen Newsrad Boates Inc

Chartered Professional Accountants
Campbell River, BC

February 14, 2023

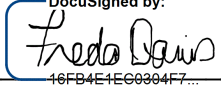
ATHLII GWAII LEGACY TRUST

Statement of Financial Position

December 31, 2022

	2022	2021
ASSETS		
Current Assets		
Cash	\$ 12,284,710	\$ 337,799
Prepaid Expenses	<u>1,164</u>	<u>1,012</u>
	12,285,874	338,811
Long Term Investments (Notes 4 and 5)	<u>46,511,178</u>	<u>59,963,121</u>
	<u>\$ 58,797,052</u>	<u>\$ 60,301,932</u>
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 59,795	\$ 96,249
Advances from Gwaii Trust Society (Note 6)	<u>62,500</u>	<u>62,500</u>
	<u>122,295</u>	<u>158,749</u>
NET ASSETS		
Unrestricted Net Assets	25,290,581	28,737,561
Internally Restricted Net Assets (Note 7)	<u>33,384,176</u>	<u>31,405,622</u>
	<u>58,674,757</u>	<u>60,143,183</u>
	<u>\$ 58,797,052</u>	<u>\$ 60,301,932</u>

Approved by the Trust:

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 Trustee

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 Trustee

ATHLII GWAII LEGACY TRUST

Statement of Changes in Net Assets

Year Ended December 31, 2022

			2022	2021
	Unrestricted	Restricted	Total	Total
Beginning Net Assets	\$ 28,737,561	\$ 31,405,622	\$ 60,143,183	\$ 54,124,103
Excess (Deficit) of Revenues over Expenses	(1,468,426)	-	(1,468,426)	6,019,080
Grant Inflation Protection	<u>(1,978,554)</u>	<u>1,978,554</u>	<u>-</u>	<u>-</u>
Ending Net Assets	\$ <u>25,290,581</u>	\$ <u>33,384,176</u>	\$ <u>58,674,757</u>	\$ <u>60,143,183</u>

ATHLII GWAII LEGACY TRUST

Statement of Revenues and Expenses

Year Ended December 31, 2022

	2022	2021
Revenue		
Investment Income (Note 8)	\$ <u>1,476,792</u>	\$ <u>2,687,007</u>
Investment Management and Regulatory Expenses		
Custodial Fees	25,933	24,915
Investment Management	276,887	250,127
Professional Fees	85,124	108,622
Trust Protector Fees	<u>12,022</u>	<u>21,802</u>
	<u>399,966</u>	<u>405,466</u>
Net Trust Earnings	<u>1,076,826</u>	<u>2,281,541</u>
Expenses (Note 6)		
Advertising and Promotion	5,000	5,000
Bank Charges	68	354
Honoraria	16,250	16,250
Insurance	6,831	5,883
Management Salaries	173,750	173,750
Meetings and Conventions	25,000	25,000
Office and Facility Costs	17,152	17,000
Supplies	5,750	5,750
Travel	5,000	5,000
Vehicle	<u>2,250</u>	<u>2,250</u>
	<u>257,051</u>	<u>256,237</u>
Excess of Revenues over Expenses from Operations	<u>819,775</u>	<u>2,025,304</u>
Other Income (Expenditures)		
Unrealized Gains (Losses) on Long Term Investments	(2,947,983)	3,998,615
Unrealized Foreign Exchange Gains (Losses)	659,782	(10,197)
Program Decommittments	<u>-</u>	<u>5,358</u>
	<u>(2,288,201)</u>	<u>3,993,776</u>
Excess (Deficit) of Revenues over Expenses	<u>\$ (1,468,426)</u>	<u>\$ 6,019,080</u>

ATHLII GWAII LEGACY TRUST

Statement of Cash Flows

Year Ended December 31, 2022

	2022	2021
Cash Flows From Operating Activities:		
Excess of Revenue over Expenses	\$ (1,468,426)	\$ 6,019,080
Changes in Non-Cash Working Capital		
Payment of Program Commitments	-	(39,915)
Accounts Payable and Accrued Liabilities	(36,454)	(21,792)
Prepaid Expenses	(152)	(188)
Advances from Gwaii Trust Society	-	60,400
	<u>(1,505,032)</u>	<u>6,017,585</u>
Cash Flows From Financing Activities:		
Net Change in and Withdrawal from (Contribution to) Investments	<u>13,451,943</u>	<u>(6,101,105)</u>
Net Increase (Decrease) in Cash	11,946,911	(83,520)
Cash - Beginning of Year	<u>337,799</u>	<u>421,319</u>
Cash - End of Year	<u>\$ 12,284,710</u>	<u>\$ 337,799</u>

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Year Ended December 31, 2022

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 \$46,511,178 at December 31, 2022 has risen above the inflation adjusted endowment value of \$33,384,176, 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 above described next steps to be taken to transfer the net assets of the Trust to the Society are expected to occur in late 2023, though the exact dates are indeterminable at the date of these financial statements. These financial statements have been prepared under the liquidation basis of presentation, with all of the Trust's material assets and liabilities being presented at their liquidation values as at December 31, 2022.

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 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 (Note 6).

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Year Ended December 31, 2022

3. Summary of Significant Accounting Policies (continued):

Financial Instruments Policy (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 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 of revenues over expenses for the current year. 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 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.

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 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.

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 excess of revenues and expenses in the year in which they become known.

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Year Ended December 31, 2022

4. Long Term Investments:

	2022		2021	
	Cost	Market	Cost	Market
Cash	\$ 7,327	\$ 7,327	\$ 68,615	\$ 68,657
Treasury Bills and Short Term Investments	-	-	315,671	315,671
Corporate Bonds	16,208,876	15,861,372	17,666,010	17,531,289
Canadian Equities	3,092,393	2,930,720	9,642,579	12,012,805
International Equities	18,282,617	17,402,203	14,027,309	21,393,002
Equities - REITs	3,829,160	10,309,556	3,785,860	8,641,697
	<u>\$ 41,420,373</u>	<u>\$ 46,511,178</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 December 31, 2022 is as follows:

	Portfolio Value		% of Portfolio		AGLT Current SIPP %		
	Cost	Market	Cost	Market	Min.	Target	Max.
Canadian Equities	\$ 3,092,393	\$ 2,930,720	8%	7%	15%	20%	25%
International Equities	18,282,617	17,402,203	44%	37%	28%	33%	48%
Total Equities	<u>21,375,010</u>	<u>20,332,923</u>	<u>52%</u>	<u>44%</u>	<u>43%</u>	<u>53%</u>	<u>73%</u>
Real Return Bonds	5,875,074	5,684,739	14%	12%	5%	6%	20%
Nominal Bonds	10,333,802	10,176,632	25%	22%	12%	17%	22%
Total Bonds	<u>16,208,876</u>	<u>15,861,371</u>	<u>39%</u>	<u>34%</u>	<u>17%</u>	<u>23%</u>	<u>42%</u>
Total Real Estate and Mortgages	<u>3,829,160</u>	<u>10,309,557</u>	<u>9%</u>	<u>22%</u>	<u>5%</u>	<u>10%</u>	<u>22%</u>
Total Cash, Treasury Bills and Short Term Investments	<u>7,327</u>	<u>7,327</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>5%</u>
Total	<u>\$ 41,420,373</u>	<u>\$ 46,511,178</u>	<u>100%</u>	<u>100%</u>			

The Trust began to change the asset mix within its investment portfolio and transfer funds to new investments during the year ended December 31, 2022; this transfer was still in progress at year-end. This transfer is expected to take up to 2 years to complete due to the nature of the new Direct Lending and Infrastructure investment portfolios.

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Year Ended December 31, 2022

5. Statement of Investment Policies and Procedures (continued):

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

- Presentation of the asset mix in Note 4 and Note 5 will include new asset portfolios.
- The SIPP disclosed above will be updated to reflect the new asset mix. The new SIPP came into effect on January 1, 2023.

6. Related Party Transactions:

During the year, administration fees of \$250,000 were paid to 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 the trustee of the Trust.

	<u>2022</u>	<u>2021</u>
Advertising and Promotion	\$ 5,000	\$ 5,000
Honoraria	16,250	16,250
Management Salaries	173,750	173,750
Meetings and Conventions	25,000	25,000
Office and Facility Costs	17,000	17,000
Supplies	5,750	5,750
Travel	5,000	5,000
Vehicle	<u>2,250</u>	<u>2,250</u>
	<u>250,000</u>	<u>250,000</u>

Balances outstanding consist of the administration fees or other operating costs paid by the Society on behalf of the Trust.

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 year 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 year ended December 31, 2022 has been calculated at the CPI of 6.3% (2021 - 4.8%) for the year.

ATHLII GWAII LEGACY TRUST

Notes to Financial Statements

Year Ended December 31, 2022

8. Investment Income:

	<u>2022</u>	<u>2021</u>
Interest Income	\$ 556,935	\$ 522,719
Dividend Income	698,004	921,733
Realized Gain on Investments	<u>221,853</u>	<u>1,242,555</u>
	<u>\$ 1,476,792</u>	<u>\$ 2,687,007</u>

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 December 31, 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 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 year, the value of the Canadian dollar depreciated by \$0.0505 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 \$659,782 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.