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Gwaii Trust Society
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Attention: Brad Setso, Chairperson

VIA EMAIL – james.cowpar@gwaiitrust.com

James Cowpar
Trustee, Athlii Gwaii Legacy Trust
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VIA EMAIL – berry.wijdeven@gwaiitrust.com

Berry Wijdeven
Trustee, Athlii Gwaii Legacy Trust

July 18, 2014

Dear Trustees:

**Re: Athlii Gwaii Legacy Trust (“AGLT” or the “Trust”)
(formerly named Gwaii Forest Charitable Trust until April 2014)**

We write in our capacity as “Protector” pursuant to the Deed of Trust (the “Deed”) made on the 29th day of March 2007 by the Gwaii Trust Society to provide the Protector’s determination as to whether there may have been a Breach under the Deed during the Fiscal Year ended December 31, 2013 (“Fiscal 2013”). For purposes of this reporting letter, all defined terms, unless otherwise defined herein, have the meaning as set out in the Deed.

Our comments are organized under the following subject headings:

- (1) Breach Determination and Review of Reporting Material
- (2) Other Disclosure Matters
- (3) Protector Determination

BREACH DETERMINATION AND REVIEW OF REPORTING MATERIAL

Pursuant to Section 38 of the Deed, the Protector is required to determine, within ninety days of the receipt of the Financial Statements and Operations Report in each Fiscal Year, whether the Trustees are in breach of their obligations under the Deed or Applicable Law or whether there are reasonable grounds to believe that any or all of the Trust Property has been used, with the knowledge and acquiescence of the Trustees, for one or more purposes that are other than one or more of the Purposes during the Year just ended. Following the making of this determination, the Protector is required to provide to the Trustees either a written notice that it has found no Breach or, if there are reasonable grounds to believe that there may have been a Breach, a Notice of Breach.

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In considering whether there has been a Breach under the Deed, the Protector has performed a review of the Reporting Material and conducted such inquiries as deemed necessary. As a result of the Protector's review, the following items have been identified as not being in compliance with the requirements set out in the Deed:

- (a) Quarterly Statements in respect of the Fiscal Quarter ended March 31, 2013.
 - The signed quarterly financial statements for the Fiscal Quarter ended March 31, 2013 were delivered to the Protector on May 7, 2013.
 - Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended March 31, 2013 was no later than April 30, 2013.
 - As discussed in the previous two Protector's letters to the Trustees dated September 23, 2012 and July 15, 2013 (the "Previous Two Letters"), the Protector is generally agreeable to allowing the Trustees a short additional period of time for preparing and delivering the signed Quarterly Statements (as well as the annual Financial Statements) to the Protector if they encounter difficulties in meeting the deadline imposed by the Deed, provided that the Trustees communicate any anticipated delay to the Protector with a reason for the delay and then deliver the signed Quarterly Statements (or annual Financial Statements) to the Protector as soon as reasonably possible.
 - In the case of the quarterly financial statements for the Fiscal Quarter ended March 31, 2013, the Protector was not advised of any delay in preparing the Quarterly Statements.
- (b) Quarterly Statements in respect of the Fiscal Quarter ended September 30, 2013.
 - An unsigned copy of the quarterly financial statements for the Fiscal Quarter ended September 30, 2013 was delivered to the Protector on November 14, 2013. These financial statements were dated November 1, 2013. A signed copy of these financial statements was not delivered to the Protector; however, they were subsequently published to the Website on an unknown date.
 - Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended September 30, 2013 was no later than October 30, 2013. Also, Section 34(b) of the Deed requires that the Quarterly Statements be delivered to the Protector. Section 35(c) of the Deed requires that these financial statements should have been published to the Website within fourteen days after they were delivered to the Protector; in this case, these financial statements should have been published to the Website by no later than November 28, 2013.
 - In the case of these Quarterly Statements, the Protector was not advised of any delay in preparing the Quarterly Statements.

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- (c) Financial Statements in respect of the Fiscal Year ended December 31, 2013.
- An unsigned copy of the Financial Statements for Fiscal 2013 was delivered to the Protector on February 24, 2014. These Financial Statements were dated February 13, 2014. A signed copy of these financial statements was not delivered to the Protector; however, they were subsequently published to the Website on an unknown date.
 - Pursuant to Section 36(b) of the Deed, the Financial Statements for each Fiscal Year are to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Financial Statements for Fiscal 2013 was no later than February 14, 2014. Section 35(c) of the Deed requires that these financial statements should have been published to the Website within fourteen days after they were delivered to the Protector; in this case, these financial statements should have been published to the Website by no later than March 10, 2014.
 - The delay in delivery of the unsigned copy of these Financial Statements to the Protector was acceptable to the Protector because the Trustees notified the Protector on February 7 and 18, 2014 that the audit and delivery of the Financial Statements had been delayed.
- (d) Operations Report in respect of the Fiscal Year ended December 31, 2013.
- The Operations Report for Fiscal 2013 was delivered to the Protector on February 24, 2014, along with the unsigned Financial Statements.
 - Pursuant to Section 36(b) of the Deed, the Operations Report is to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Operations Report for Fiscal 2013 was no later than February 14, 2014.
 - As with the Financial Statements for Fiscal 2013, the delay in the delivery of the Operations Report for Fiscal 2013 to the Protector was acceptable to the Protector because the Trustees notified the Protector on February 7 and 18, 2014 of the delay in completion and delivery of the Reporting Material for Fiscal 2013.
- (e) Public Availability of Fiscal 2013 Reporting Material.
- A newspaper notice advising of the availability of the Reporting Material for Fiscal 2013 for review by members of the Communities was published on June 5, 2014.
 - Pursuant to Section 35(b) of the Deed, a notice advising of the availability and location of the Fiscal 2013 Reporting Material for review (the “Section 35(b) Notice”) is required to be published in a newspaper or other periodical distributed within the Communities.
 - Although the Deed does not stipulate a deadline for the publishing of the Section 35(b) Notice, the Protector is of the view that this should be completed within a reasonable time after the delivery of the Reporting Material to the Protector as the intention of this Deed requirement appears to be to ensure the timely disclosure of the Trust’s prior year’s financial and operational reporting to members of the Communities. Accordingly, the Protector recommends that the Trustees consider publishing the Section 35(b) Notice within 30 days after delivery of the Reporting Material to the Protector.

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OTHER DISCLOSURE MATTERS

In considering whether there may have been a Breach, the Protector has identified and generally discussed with the Trustees the following matters, which may not all have been contemplated when the Deed was prepared:

Investment Monitoring

- In the Protector's Previous Two Letters, the Protector discussed the non-compliance of the Trust's investment portfolio with the Target Asset Mix of the applicable Statement of Investment Policies and Procedures ("SIPP") and the continuing uncertainty as to whether the investment portfolio was compliant with the SIPP's numerous quantitative and qualitative guidelines.
- As a result of certain investment re-allocations, the actual investment mix was in compliance with the Target Asset Mix of the current SIPP by September 30, 2013 and thereafter, according to the quarterly financial statements for the Fiscal Quarter ended September 30, 2013 and the Financial Statements for Fiscal 2013. However, it is not known whether the investment portfolio was in full compliance with all SIPP terms, including the quantitative and qualitative guidelines.
- Also in the Previous Two Letters, the Protector recommended to the Trustees that they implement a monitoring process to confirm whether the Trust's investment managers and the investment portfolio are in compliance with SIPP terms, and that compliance reports be delivered to the Protector on a go-forward basis once a monitoring process was put in place.
- To date, a comprehensive investment monitoring process has not been implemented by the Trustees. However, the Protector understands that the Trustees continue to be engaged in discussions with certain parties with a view to selecting one party to develop a process for and perform the monitoring of AGLT's investment managers' compliance with SIPP terms, likely on a quarterly basis.
- The Protector's views are unchanged from the Previous Two Letters in respect of the need for continued monitoring of the Trust's investments for compliance with SIPP terms and continues to recommend that the Trustees implement a monitoring process as soon as reasonably possible.

Strategic Plan

- In May 2008, the Trustees delivered to the Protector the Trust's first Strategic Plan (the "2008 Strategic Plan"), as required pursuant to Section 23 of the Deed. The purpose of the Strategic Plan, generally speaking, is to set out the Trustees' plan for the use of the Trust's funds in furtherance of the Purposes over the five-year period immediately following its publication. The Deed further requires that the Trustees, in consultation with their agent, review the Strategic Plan at future dates and amend it as necessary to make it current in respect of the next five-year period following the review.
- The Trustees acknowledged in a letter to the Protector in December 2012 that the 2008 Strategic Plan was required under terms of the Deed to be revised during 2013, and advised that they had decided to delay doing so until after they completed a consultation process with the Communities in respect of matters relating to, amongst other things, the administration of future funding of Eligible Projects.

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- The Protector understands that:
 - i) during 2013, the Trustees obtained an opinion (the “Waters Opinion”) from Dr. Donovan Waters, who opined, in effect, that the Trust was void *ab initio* because the Purposes of the Trust were both charitable and non-charitable and such voidity, in Dr. Waters’ opinion, resulted in Gwaii Trust Society holding the Trust’s funds on a bare trust for the Government of British Columbia (“BCG”);
 - ii) the Trustees responded to the Waters Opinion by entering into discussions, working with their advisors and counsel, with the BCG;
 - iii) the outcome from these discussions was that the BCG, in its 2014 budget legislation, enacted legislation deeming the Trust to be valid; and
 - iv) the Trustees are continuing to negotiate with BCG seeking to obtain further statutory amendments to the Trust, possibly by early 2015.
- Recognizing that the Waters Opinion and the subsequent negotiations with the BCG resulted in delays to the Trustees’ consultation process with the Communities, the Protector is of the view that the Trustees’ delay in preparing a revised Strategic Plan is reasonable in the circumstances.
- However, the Protector understands that the Trustees are considering resuming the funding of Eligible Projects in the near future, possibly starting the process of collecting applications for funding by late 2014. In discussions with the Trustees, the Protector has agreed that, instead of preparing a revised five-year Strategic Plan prior to completion of the current negotiations with the BCG, the Trustees should prepare an interim business plan setting out how, and by whom, the administration of the granting process and monitoring of funded Eligible Projects will be conducted (the “Interim Plan”).
- The Protector understands that the Trustees are, as at the date of this letter, working to prepare and document the Interim Plan with a view to commence the process of reviewing, accepting and funding Eligible Projects as soon as reasonably possible. The Protector requests that the Trustees deliver the Interim Plan to the Protector when it is completed and prior to commencing the process of reviewing, accepting and funding Eligible Projects.

PROTECTOR DETERMINATION

Pursuant to the Protector’s review of the Reporting Material and its other inquiries, and as discussed above, the Protector has identified certain items that were not in compliance with the requirements set out in the Deed. Pursuant to the requirements of the Deed, these items could technically be considered as a Breach. However, these items had been resolved prior to the date of this letter. Consequently, the Protector does not believe that further action on its part is warranted at this time.

Accordingly, pursuant to Section 38(a) of the Deed, the Protector has found no reportable Breach for the Fiscal Year ended December 31, 2013.

However, the Protector asks that the Trustees, as requested above, confirm to the Protector once an investment compliance monitoring program has been developed and implemented, and also deliver the Interim Plan to the Protector when it has been developed.



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Should you have any questions or concerns with respect to the foregoing, please do not hesitate to contact Anthony Tillman on (604) 646-6332, atillman@kpmg.ca.

Yours very truly,
KPMG Inc., in its
capacity as Protector
and not in its personal capacity

Anthony Tillman
Senior Vice-President

Mark Kemp-Gee
Senior Manager

cc Tony Knox, KNOX & Co.