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**VIA EMAIL – james.cowpar@gwaiitrust.com**

Gwaii Trust Society  
PO Box 397  
162 Raven Avenue  
Old Masset BC V0T 1M0  
Attention: James Cowpar, Chairman

**VIA EMAIL – jason.alsop@gwaiitrust.com**

Jason Alsop  
Trustee, Athlii Gwaii Legacy Trust  
c/o Gwaii Trust Society  
PO Box 397, 162 Raven Avenue  
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**VIA EMAIL – clyde.greenough@gwaiitrust.com**

Clyde Greenough  
Trustee, Athlii Gwaii Legacy Trust  
c/o Gwaii Trust Society  
PO Box 397 162 Raven Avenue  
Old Masset BC V0T 1M0

June 21, 2017

Dear Trustees:

**Re: Athlii Gwaii Legacy Trust (“AGLT” or the “Trust”)**

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, 2016 (“Fiscal 2016”). 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, 2016.

- The quarterly financial statements for the Fiscal Quarter ended March 31, 2016 were not delivered to the Protector.
- 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, 2016 was no later than April 30, 2016. Also, Section 34(b) of the Deed requires that the Quarterly Statements be delivered to the Protector.
- The Protector subsequently located a signed copy of the quarterly financial statements for the Fiscal Quarter ended March 31, 2016 on the Website on May 26, 2016.

(b) Quarterly Statements in respect of the Fiscal Quarter ended June 30, 2016.

- The quarterly financial statements for the Fiscal Quarter ended June 30, 2016 were delivered to the Protector on August 30, 2016.
- 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 June 30, 2016 was no later than July 30, 2016.

(c) Quarterly Statements in respect of the Fiscal Quarter ended September 30, 2016.

- The quarterly financial statements for the Fiscal Quarter ended September 30, 2016 were delivered to the Protector on November 4, 2016.
- 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, 2016 was no later than October 30, 2016.
- As discussed in certain of the previous Protector's letters to the Trustees, 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 September 30, 2016, the delay in delivery of these Quarterly Statements to the Protector was considered acceptable to the Protector because the Trustees advised that they had only just received the draft statements from the Trust's accountant on October 31, 2016 and needed some additional time to review them.



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(d) Financial Statements in respect of the Fiscal 2016.

- The finalized Financial Statements for Fiscal 2016 were delivered to the Protector on March 1, 2017.
- 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 2016 was no later than February 14, 2017.
- The Protector notes that the Independent Auditor's Report in respect of these Financial Statements was dated February 17, 2017, which was three days after the date by which these Financial Statements were required to be delivered to the Protector.
- As the Auditor was delayed in delivering the Financial Statements to the Trustees, the Protector recommends to the Trustees that they remind the Auditor of the obligations set out in Section 36(b) (as well as Section 36(a)) of the Deed with a request that in future the Auditor and the Trustees work together to ensure delivery of the Financial Statements and Quarterly Statements to the Protector within the timelines set out in Sections 36(a) and (b) of the Deed.

(e) Operations Report in respect of Fiscal 2016.

- The Operations Report for Fiscal 2016 was delivered to the Protector on March 1, 2017.
- 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 2016 was no later than February 14, 2017.

## **OTHER DISCLOSURE MATTERS**

Further to discussion in the Protector's letter to the Trustees dated August 2, 2016, the one outstanding Eligible Project which was approved for funding and partially funded during 2015 (in respect of providing funding for the publication of a book ("30th Anniversary of the Stand at Athlii Gwaii") with a budget of \$63,240) was not completed during Fiscal 2016. The Trustees advised that they are continuing to monitor the status of this Eligible Project in accordance with Section 22 of the Deed; they have not provided an updated estimated timeline to completion of this Eligible Project.

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:

### General Controls

- Certain internal control issues were identified in the Protector's letters to the Trustees dated August 2, 2011, September 23, 2012 (the "2012 Letter") and July 13, 2015 (the "2015 Letter"), and the Protector recommended that the Trustees implement additional internal controls to prevent those issues from reoccurring. The Protector understands that the Trustees subsequently implemented certain additional internal controls.



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- However, the Protector identified a recurrence of the same internal control issues at the end of Fiscal 2016 as those which were discussed in the 2012 Letter and the 2015 Letter. According to the Financial Statements in respect of Fiscal 2016, the Trust had bank indebtedness in the amount of \$69,203 as at December 31, 2016 as a result of the Trust issuing payments at a time when there were insufficient funds in the Trust's bank account. The funds to cover that indebtedness were deposited into the Trust's bank account on January 11, 2017.
- The Trust does not have an overdraft account and, accordingly, the Protector is of the view that the Trustees should once again review and update as needed their internal controls to eliminate the possibility of unauthorized overdrafts from reoccurring in the future.
- The Trustees should confirm to the Protector within 60 days from the date of this letter that they have further reviewed AGLT's internal controls and are satisfied that they are sufficient, and should also provide a copy of the current internal controls document to the Protector.

#### Non-compliance with Terms of AGLT's SIPP

- In the 2012 Letter and its letter to the Trustees dated July 15, 2013, the Protector discussed certain periods during which the actual investment mix of the Trust's investment portfolio was not in compliance with the Target Asset Mix of the applicable Statement of Investment Policies and Procedures ("SIPP").
- At the beginning of Fiscal 2016 and as at the end of each fiscal quarter of Fiscal 2016, the actual investment mix of the Trust's investment portfolio was not in compliance with the Target Asset Mix of the applicable SIPP, that being the SIPP dated December 31, 2012 (the "Current SIPP"). Specifically, the actual percentage of the investment portfolio which was invested in Global Equities was above the maximum of 38% of the portfolio as set out in the Current SIPP; as at December 31, 2016, the actual was 41% of the total portfolio. (The proportion has increased during Fiscal 2017, and was 42% as at March 31, 2017).
- Pursuant to Section 21 of the Deed, the Trustees have a duty to develop an investment strategy for each Fiscal Year and to publish it on the Website on or before January 1 of that Fiscal Year. The Protector is of the view that the Deed therefore prohibits the Trustees from modifying the Current SIPP during the remainder of Fiscal 2017.
- Accordingly, should the Trustees wish to modify the Target Asset Mix to permit the portion of the total portfolio which can be invested in Global Equities to be higher than the current maximum of 38%, then they are required by the Deed to prepare a revised SIPP for Fiscal 2018 and to publish that revised SIPP on the Website on or before January 1, 2018.
- The Protector continues to be of the view that the Trustees should ensure that the terms of the SIPP are complied with at all times.
- The Protector also continues to be of the view that, as recommended in each of the three most recent Protector letters to the Trustees, the Trustees should implement a comprehensive investment monitoring process to confirm whether the Trust's investment managers and the investment portfolio are in compliance with the quantitative and qualitative guidelines set out in the SIPP.



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### Strategic Plan

- Another matter which was discussed in each of the three most recent Protector letters to the Trustees is the development of 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”) during the period until the Trustees prepare a revised five-year Strategic Plan.
- The Trustees were required (pursuant to Section 23 of the Deed) to prepare a revised Strategic Plan during Fiscal 2013 but they had deferred doing so, primarily on account of their expectation of obtaining certain statutory amendments to the Trust.
- The Protector understands that the Interim Plan has not been completed, and also notes that, with the exception of the one aforementioned Eligible Project which was approved for funding in 2015, funding of Eligible Projects has generally not resumed since the Trustees decided to prepare the Interim Plan.
- The Protector continues to be of the view that the Trustees should prepare the Interim Plan and publish it to the Website (and deliver it to the Protector) prior to approving and funding any further 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 either been resolved prior to the date of this letter or were considered by the Protector to be of a nature which did not constitute a reportable Breach. 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, 2016.

However, the Protector asks that the Trustees, as requested above:

- ensure that the Quarterly Statements and Financial Statements are prepared and delivered to the Protector within the timeframes set out in the Deed, or advise the Protector of any delays prior to the reporting deadlines imposed by the Deed;
  - confirm that they have further reviewed AGLT’s internal controls and are satisfied that they are sufficient and also provide a copy of the current internal controls document to the Protector; and
  - confirm to the Protector once an investment compliance monitoring program has been developed and implemented, advise the Protector once a revised SIPP for Fiscal 2018 is prepared and published to the Website (should the Trustees decide to prepare one) and 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](mailto: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.