

ATHLII GWAI LEGACY TRUST
Financial Statements
As at December 31, 2014

McAlpine
& Co. CA¹¹

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Trustees of Athlii Gwaii Legacy Trust

We have audited the accompanying financial statements of Athlii Gwaii Legacy Trust, which comprise the statement of financial position as at December 31, 2014 and the statements of revenues and expenditures, changes in net assets and cash flow for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

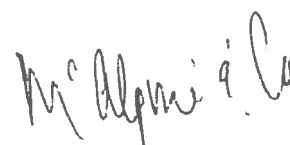
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Athlii Gwaii Legacy Trust as at December 31, 2014 and the results of its operations and its cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Terrace, B.C.
February 11, 2015





CHARTERED ACCOUNTANTS

ATHLII GWAII LEGACY TRUST
Statement of Financial Position
As at December 31, 2014

	2014	2013
Assets		
Current		
Cash	\$ 33,240	\$ 55,719
Investment income receivable	62,437	575
Prepaid expenses	578	575
	96,255	56,294
Long term investments (Notes 3, 4, 5)	38,775,965	35,162,468
	\$ 38,872,220	\$ 35,218,762
Liabilities		
Current		
Bank indebtedness	\$	\$ 65,085
Accounts payable and accrued liabilities	46,000	63,848
Advances from Gwaii Trust Society	81,500	46,500
	127,500	175,433
Net assets		
Unrestricted	11,578,347	8,278,430
Grant Fund	27,166,373	26,764,899
	38,744,720	35,043,329
	\$ 38,872,220	\$ 35,218,762

On behalf of the Board


 _____ Trustee


 _____ Trustee

See notes to financial statements

ATHLII GWAII LEGACY TRUST
Statement of Revenues and Expenditures
Year Ended December 31, 2014

	2014	2013
Income		
Investment income (Note 6)	\$ 2,657,381	\$ 2,973,256
Investment management and regulatory expenses		
Actuary	1,599	18,175
Custodial fees	49,229	51,721
Investment management	164,251	146,246
Legal fees	82,486	95,643
Trust protector fees	40,909	27,968
	338,474	339,753
Net trust earnings	2,318,907	2,633,503
Expenses		
Accounting and audit fees	10,071	11,977
Administration fees	66,000	62,000
Bank charges	189	5
Communication	388	124
Insurance	4,018	3,672
Office and miscellaneous	520	
	81,186	77,778
Excess of income over expenses from operations	2,237,721	2,555,725
Grant inflation protection (Note 7)	(401,474)	(317,370)
Net surplus for the year	1,836,247	2,238,355
Unrealized gains on long term investments	1,463,670	1,708,277
Comprehensive surplus for the year	\$ 3,299,917	\$ 3,946,632

ATHLII GWAII LEGACY TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2014

	Unrestricted	Grant Fund	2014	2013
Net assets - beginning of year	\$ 8,278,430	\$ 26,764,899	\$ 35,043,329	\$ 30,779,327
Excess of income over expenses	3,299,917		3,299,917	3,946,632
Grant inflation protection		401,474	401,474	317,370
Net assets - end of year	\$ 11,578,347	\$ 27,166,373	\$ 38,744,720	\$ 35,043,329

ATHLII GWAII LEGACY TRUST
Statement of Cash Flow
Year Ended December 31, 2014

	2014	2013
Operating activities		
Excess of income over expenses	\$ 3,299,917	\$ 3,946,632
Item not affecting cash:		
Grant inflation protection	401,474	317,370
	3,701,391	4,264,002
Changes in non-cash working capital:		
Investment income receivable	(6,718)	15,948
Accounts payable and accrued liabilities	(17,848)	15,675
Prepaid expenses	(3)	(13)
Advances from (to) Gwaii Trust Society	35,000	(14,500)
	10,431	17,110
Cash flow from operating activities	3,711,822	4,281,112
Financing activity		
Net change in investments	(3,613,497)	(4,544,909)
Increase (decrease) in cash	98,325	(263,797)
Cash (deficiency) - beginning of year	(65,085)	198,712
Cash (deficiency) - end of year	\$ 33,240	\$ (65,085)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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 \$38,775,965 at December 31, 2014 has risen above the the inflation adjusted endowment value of \$27,166,373, the Trustees have committed to resuming disbursements of Trust assets for program funding effective January 1, 2015.

The Trust has budgeted to fund \$1,750,000 annually over the next four years for a total of \$7,000,000 to be divided equally over the communities on Haida Gwaii.

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 (GAAP). 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.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

(continues)

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2014

3. Summary of significant accounting policies (continued)

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 amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

4. Investments

	2014		2013	
	Cost	Market	Cost	Market
Cash	\$ 44,467	\$ 44,467	\$ 29,228	\$ 29,228
Treasury bills and short term investments	474,123	474,123	114,760	114,760
Federal and Provincial Government bonds	3,710,323	3,844,597	3,358,349	3,298,456
Corporate bonds	7,261,308	7,493,136	7,709,244	7,633,703
Mortgage funds	737,533	756,974	727,048	731,775
Equities	6,437,204	7,859,760	5,899,784	7,223,011
International equities	10,964,627	14,555,766	10,559,078	12,736,776
Equities - real estate investment trusts	2,592,996	3,747,142	2,631,610	3,394,759
	\$ 32,222,581	\$ 38,775,965	\$ 31,029,101	\$ 35,162,468

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2014

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: **December 31, 2014**

	Portfolio Value (\$\$)		% of Portfolio		GFCT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 6,437,204	\$ 7,859,760	20%	20%	15%	20%	25%
International equities	10,964,627	14,555,766	34%	38%	28%	33%	38%
Total equities	17,401,831	22,415,526	54%	58%	43%	53%	63%
Real return bonds	4,190,012	4,184,910	13%	11%	10%	15%	20%
Government bonds - Federal	1,295,625	1,310,127	4%	3%			
Government bonds - Provincial & municipal	2,414,698	2,534,470	7%	7%			
Corporate bonds	2,561,065	2,618,038	8%	7%			
Total nominal bonds	6,271,388	6,462,635	19%	17%	12%	17%	22%
High yield bonds	510,231	690,188	2%	2%	0%	5%	10%
Total bonds	10,971,631	11,337,733	34%	29%	22%	37%	52%
Mortgage fund	737,533	756,974	2%	2%			
Real estate funds	2,592,996	3,747,142	8%	10%			
Total mortgage & real estate	3,330,529	4,504,116	10%	12%	5%	10%	15%
Cash	44,467	44,467	0%	0%			
Treasury bills and short term investments	474,123	474,123	1%	1%			
Cash/Short term notes	518,590	518,590	2%	1%	0%	0%	0%
	\$ 32,222,581	\$ 38,775,965	100%	100%	70%	100%	130%

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2014

6. Investment income

	2014	2013
Interest income	\$ 552,147	\$ 510,735
Dividend income	239,934	227,418
Other investment income	1,055,705	1,780,011
Realized gain (loss) on investments	809,595	455,091
	\$ 2,657,381	\$ 2,973,255

7. Restricted net assets

The AthlII Gwaii Legacy Trust Investment 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 year ended December 31, 2014 has been calculated at the CPI index of 1.5% (2013 - 1.2%) for the year.

8. Related party transaction

During the year, administration fees of \$66,000 were paid to the Gwaii Trust Society. These fees represent operating costs paid by the Gwaii Trust Society on behalf of the Gwaii Forest Charitable Trust. The Gwaii Trust Society is the trustee of the AthlII Gwaii Legacy Trust.

	2014	2013
Advertising and promotion	\$ 1,800	\$ 1,880
Bank charges		620
Board honoraria	15,000	11,000
Meetings	3,000	2,800
Office and postage	3,000	2,800
Rent and utilities	3,600	3,600
Office supplies	1,900	1,900
Telecommunications	6,000	5,900
Travel	2,400	2,700
Vehicle expense	1,800	1,800
Wages and benefits	27,500	27,000
	\$ 66,000	\$ 62,000

ATHLII GWAII LEGACY TRUST
Notes to Financial Statements
Year Ended December 31, 2014

9. Financial instruments

The organization 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 organization's risk exposure and concentration as of December 31, 2014.

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

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

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. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

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