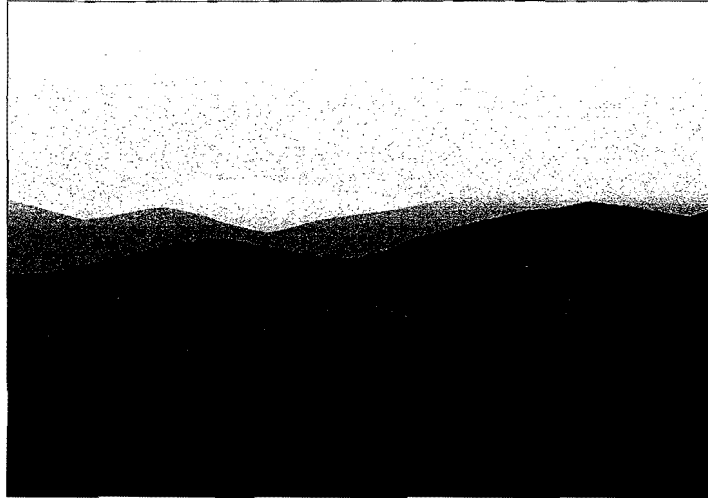


The Coast Sustainability Trust II



**December 31, 2018
Annual Report**

**Trustee
Eric van Soeren**

The Coast Sustainability Trust II

Report of the Trustee

The Coast Sustainability Trust (CST) was established in late March 2002. Its purpose was to mitigate any adverse impacts arising from government land use planning decisions related to the Land and Resource Management Plan (LRMP) process in the Central Coast, North Coast, and Queen Charlotte Islands/Haida Gwaii (the Specified Area), and to help the coastal forest industry, coastal communities and First Nations become more sustainable.

On March 31, 2007 the CST was terminated by operation of the Trust Deed that created it. At that time the Advisory Board decided to roll the CST into the Coast Sustainability Trust II (CST II). As of December 31, 2018, the CST II consists of four funds, with the following balances:

1. A **Community Matching Fund** for civic communities and First Nations that have been negatively affected by provincial government land use decisions related to the LRMP process. As of year-end, the Community Matching Fund account contained \$871,801.
2. An **Ecosystem Based Management (EBM) Adaptive Management Fund**, whose primary purpose is to fund successful implementation and management of an Adaptive Management program that supports the goals of EBM. As of year end the Ecosystem Based Management Adaptive Management Fund account contained \$590,934.
3. An **Ecosystem Based Management Matching Fund**, for communities, First Nations, workers and contractors that may be negatively affected by the implementation of Ecosystem Based Management. As of year-end, the EBM Matching Fund account contained \$665,496; and
4. A **Landscape Reserve Planning Fund**, whose primary purpose is to fund the development and implementation of Landscape Reserve Planning by First Nations that supports the goals of EBM within the Plan Area. As of year-end the Landscape Reserve Planning Fund account contained \$14,877.

Trust Administration

A Trustee and a five-person Advisory Board administer the CST II. The Advisory Board consists of one representative for the coastal forest industry, one for the Truck Loggers Association, one for the Steelworkers, one for the provincial government and one for communities.

Community Matching Fund (CMF):

The immediate objective of the Community Matching Fund is to provide funding to projects in civic and First Nations communities impacted by the LRMP process. Funding can be directed to First Nations and civic communities in the Regional Districts of Skeena-Queen Charlotte, Central Coast, Comox Valley, Strathcona and Mount Waddington, and the portions of the Kitimat-Stikine Regional District that are included in the North Coast LRMP planning area. Funds address local adjustment priorities, needs, opportunities and solutions. Projects must have community and preferably regional support and should result in:

- Regional and community strategic planning;
- Strategic investments with expected long-term economic benefits; and

- Reduction of reliance on conventional forestry-based activities to alternative and sustainable economic activities.

The following guiding principles are to be applied to projects being submitted to the CMF for consideration:

- Helps in developing a regional and community economic development strategy, if no current plan exists.
- Helps diversify the local economy, without adversely affecting the economies of neighbouring communities.
- Has tangible long-term direct economic benefits, including employment creation or enhancement.
- Promotes sustainable development within the region.
- Demonstrates broad based community support.
- Is consistent with the community's Community Economic Development Strategy.
- Leverages a minimum of an equal amount of unencumbered private or public sector dollars, except for smaller projects, which may be supported by as much as three quarters of the first \$50,000 by the CST when no other matching funds are available.
- Does not request funding for activities that can be covered by other existing programs.
- Is environmentally sound and does not cause unsustainable pressure on natural resources.

Types of Matching Fund Assistance

- Funding assistance for communities is available for a variety of activities, including regional planning, infrastructure development and marketing.
- Assistance is in the form of grants made directly to civic communities, First Nations or entities such as not for profit societies or associations that are formally supported by civic communities or First Nations.
- No funding will be provided to privately owned for profit operations.

Following are the objectives of the Ecosystem Based Management Adaptive Management Fund (EBM-AM):

- To invest in the Central and North Coast plan areas, also known as the Great Bear Rainforest.
- To fund the successful implementation and management of an Adaptive Management program that supports the goals of Ecosystem Based Management within the Project Area.
- To fund projects approved by the Coastal First Nation and the Nanwakolas EBM Forums.
- To invest in and support EBM-AM, and other specific uses as directed by the Donor.

Following are the objectives of the Ecosystem Based Management Matching Fund (EBM-MF):

- Originally, the same as for the Community Matching Fund, but in addition, workers and contractors that may be affected by provincial government land use decisions related to EBM are also potentially eligible for mitigation payments.
- Currently the balance in the EBM-MF is to be used as matching funds for forest worker training.

Following are the objectives of the Landscape Reserve Planning (LRP) sub trust:

- To invest in the Central Coast and North Coast plan areas (LRP Plan Area).
- To fund the successful development and implementation of landscape reserve planning that supports the goals of EBM within the Plan Area.
- To provide regional capacity for First Nations in the LRP Plan Area to develop landscape reserve plans that provide for concurrent progress on ecological integrity and human well being objectives.

Fund Term

The CST II will be wound up when all funds have been disbursed, or when the remaining funds are insufficient to justify continued operation of the CST II. If that happens, the Trustee will transfer the remaining balance to one or more entities that have a mandate similar to that of the CST II, on condition that the transferred CST II funds will be used in a way that is consistent with the purpose of the CST II.

Distributions to Beneficiaries

Community Matching Fund

The Advisory Board of the CST approved the creation of 5 Regional Steering Committees (RSCs), based on a combination of Regional District and LRMP area boundaries. These RSCs were established to determine how Community Matching Funds would be allocated. Representation on the RSCs consists of 50% First Nations nominees, and 50% civic community nominees. The RSCs review proposals received directly from communities or First Nations in their area, or from entities supported by those communities or First Nations.

The five RSCs represent the Comox Valley, Strathcona, Mount Waddington, and Central Coast regional districts, and the North Coast and Haida Gwaii. During 2015 the Comox Strathcona, the Mount Waddington and the Haida Gwaii Regional Steering Committees were disbanded because the funds allocated to those areas had been or were about to be disbursed. Following is an indication of activity with the RSCs to date:

**Status of Community Matching Fund funding requests
As at December 31, 2018**

Regional Steering Committee	Total Project Size	Amount Requested of CST	Amount Rejected by CST or abandoned by applicant	Amount still under consideration by CST	Number of Approved Projects	Amount approved by CST	Amount disbursed by CST
Central Coast	\$27,776,391	\$7,091,220	\$3,196,640	\$250,000	65	\$3,644,580	\$3,367,080
Comox Strathcona	\$59,593,292	\$14,249,419	\$10,149,585	\$0	47	\$4,099,833	\$4,099,833
Mount Waddington	\$114,245,547	\$10,620,075	\$6,520,075	\$0	56	\$4,100,000	\$4,100,000
North Coast	\$75,664,284	\$10,384,990	\$6,184,991	\$0	44	\$4,100,000	\$3,969,280
QCI Haida Gwaii	\$60,832,006	\$8,258,769	\$4,158,769	\$0	57	\$4,100,000	\$4,100,000
Total:	\$338,111,520	\$50,648,222	\$30,210,059	\$250,000	269	\$20,044,413	\$19,636,173

Types of Projects Approved for Community Matching Fund Assistance

To stimulate economic activity, each RSC considers and approves projects that fit into the strategic priorities of their area or, if no formal strategic priorities have been developed, projects that clearly fall into the range of initiatives that likely will be included. The types of projects vary to some extent by the chosen strategic direction of each RSC. Following is a table that shows the type of projects approved for CST funding support:

Regional Steering Committee	Total Project Size	Amount approved by CST	Nature of Approved Project					
			Agriculture & NTFPs	Aquaculture & processing	Forestry	Infra-structure	Planning	Tourism
Central Coast	\$19,016,457	\$3,644,580	\$87,501	\$757,090	\$130,854	\$1,192,144	\$598,146	\$878,845
Comox Strathcona	\$32,887,773	\$4,099,833	\$12,500	\$1,137,000	\$0	\$824,000	\$190,500	\$1,935,833
Mount Waddington	\$38,767,183	\$4,100,000	\$91,400	\$292,111	\$15,000	\$1,652,856	\$39,500	\$2,009,133
North Coast	\$23,420,557	\$4,100,000	\$58,147	\$980,120	\$50,000	\$788,856	\$38,640	\$2,184,237
QCI Haida Gwaii	\$47,740,201	\$4,100,000	\$200,549	\$274,060	\$162,398	\$1,836,754	\$165,232	\$1,461,007
Total:	\$161,832,171	\$20,044,413	\$450,097	\$3,440,381	\$358,252	\$6,294,610	\$1,032,018	\$8,469,055
Percent of Approved Amounts			2.2%	17.2%	1.8%	31.4%	5.1%	41.3%

Employment Impact of CST Funding

Following is a table which displays the employment impact of CST funding. The numbers are based on a combination of information submitted in the original applications, quarterly reporting as the project proceeded, and results of a survey taken of recipients of CST funding after the projects were completed. Numbers shown are actual employment or contract positions and have not been reduced to full time equivalents. Spin off jobs were not included as, especially in the case of tourism, the provision of high speed internet and long-range planning, they are very difficult to estimate.

Regional Steering Committee	Full time Jobs While Project Active	Part time Jobs While Project Active	Full time Jobs While Project Completed	Part time Jobs When Project Completed
Central Coast	41	136	268	269
Comox Strathcona	84	249	202	209
Mount Waddington	86	268	180	222
North Coast	126	174	186	107
QCI Haida Gwaii	217	259	100	119
Total:	554	1,086	936	926

Landscape Reserve Planning (LRP) sub trust

The CST II disbursed a total of \$735,000 to two First Nation organizations, the Nanwakolas Council, and the Coast First Nations, during 2009. No funds were disbursed from 2010 to 2018, so the balance of the original \$750,000 contribution to the CST, less administrative costs, plus earned interest, for a total of approximately \$16,000, remains in the LRP sub trust account

Ecosystem Based Management Matching Fund Account

The purpose of the EBM Matching fund is to help mitigate the negative impacts of the implementation of Ecosystem Based Management on forest workers, contractors and both civic and First Nations Communities.

The Advisory Board of the BC Forestry Revitalization Trust II (BCFRT) agreed to provide matching funds to the CST EBM Matching Fund to allow workers and replaceable contractors on Haida Gwaii to receive mitigation for the negative impacts of EBM on them. All 11 of the replaceable contractors and all 35 of the employees that were identified as having been negatively impacted by the implementation of EBM on Haida Gwaii have received the mitigation for which they were eligible, with total mitigation paid out of \$5,139,318.

The CST II Advisory Board agreed that up to \$200,000 per RSC could be used to match with industry, First Nations and/or civic communities to provide training for people in the harvesting side of the forest industry. Twenty-five training initiatives worth \$792,333 have been approved. Of those, approvals of \$171,458 were abandoned or were completed under budget, resulting in net approvals of \$621,875. Funds for all of the net approvals to December 31, 2018 have been disbursed. The Trustee continues to have discussions with several other contractors, First Nations and licensees that plan to develop training programs specific to the needs of their operations, and the employees they have or intend to hire.

Eco-system Based Management Adaptive Management (EBM-AM)

Effective March 31, 2009 a new sub-trust called the EBM Adaptive Management sub trust was created.

Five contracts totaling \$139,449 have been signed related to EBM-AM. All those projects have been completed, and three came in under budget. Disbursements of \$129,234 have been made in previous years. There was no activity in this fund during 2018. The balance of the funds allocated to the EBM AM sub-trust remains available for future projects.

Conclusion:

Four of the five RSCs have now allocated all their available Community Matching Funds to specific projects, and substantially all the funds for three of the RSCs have been disbursed and the Regional Steering Committees disbanded. The Trustee continues to solicit new proposals and to distribute funds to the intended beneficiaries of the active accounts, according to the Distribution Objectives of the Declaration of Trust that established the CST II, and the Guidelines of the donor directed sub-trusts. The Trustee also continues to solicit EBM Matching Fund applications for Forest Worker Training matching funds, and the EBM AM sub trust is ready to fund more projects as they are developed. The donor is considering how to apply the remaining Landscape Reserve Planning Account funds.

Overall, CST activity is expected to continue at a slow to moderate pace for the next year.

THE COAST SUSTAINABILITY TRUST II
Financial Statements
Year Ended December 31, 2018

THE COAST SUSTAINABILITY TRUST II
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Year Ended December 31, 2018

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***Andrew F. Schroeder, CPA, CA**

***Alnashir Rashid, CPA, CGA**



INDEPENDENT AUDITOR'S REPORT

To the Trustee of The Coast Sustainability Trust II

We have audited the accompanying financial statements of The Coast Sustainability Trust II, which comprise the statement of financial position as at December 31, 2018 and the statements of revenues and expenditures, changes in net assets and cash flows 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.

(continues)

Independent Auditor's Report to the Trustee of The Coast Sustainability Trust II *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Coast Sustainability Trust II as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Richmond, British Columbia
February 1, 2019

Schroeder Rashid LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

THE COAST SUSTAINABILITY TRUST II

Statement of Financial Position

December 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 11,882	\$ 15,197
Investments - current portion (Note 6)	<u>1,915,359</u>	<u>1,048,208</u>
	1,927,241	1,063,405
INVESTMENTS (Note 6)	<u>224,999</u>	<u>1,263,102</u>
	\$ 2,152,240	\$ 2,326,507
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 8,399	\$ 8,400
Due to related parties (Note 7)	<u>733</u>	<u>5,348</u>
	9,132	13,748
NET ASSETS		
Restricted	<u>2,143,108</u>	<u>2,312,759</u>
	\$ 2,152,240	\$ 2,326,507

APPROVED BY THE TRUSTEE

 *Luc H. H. van Keulen* Trustee

The accompanying notes are an integral part of the financial statements.

THE COAST SUSTAINABILITY TRUST II
Statement of Revenues and Expenditures
Year Ended December 31, 2018

	Landscape Reserve	EBM-AM	EBM- Matching Fund	Community Matching Fund	2018	2017
REVENUE						
Interest income	\$ 292	\$ 8,855	\$ 13,900	\$ 14,528	\$ 37,575	\$ 30,309
EXPENSES						
Audit fees	160	800	1,600	5,440	8,000	9,000
Bank charges and interest	200	201	215	275	891	843
Disbursements to beneficiaries (Note 10)	-	-	1,242	166,090	167,332	39,985
GST/HST expense (Note 9)	31	155	338	1,328	1,852	2,947
Office	-	-	-	336	336	508
Professional fees	-	-	187	-	187	193
Project analysis (Note 7)	-	-	-	5,544	5,544	8,712
Travel	-	-	-	-	-	89
Trustee fees (Note 7)	462	2,308	4,617	15,697	23,084	31,651
	853	3,464	8,199	194,710	207,226	93,928
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (561)	\$ 5,391	\$ 5,701	\$ (180,182)	\$ (169,651)	\$ (63,619)

The accompanying notes are an integral part of the financial statements.

THE COAST SUSTAINABILITY TRUST II

Statement of Changes in Net Assets

Year Ended December 31, 2018

	Landscape Reserve	EBM-AM	EBM-Matching Fund	Community Matching Fund	2018	2017
NET RESTRICTED ASSETS, BEGINNING OF YEAR	\$ 15,438	\$ 585,543	\$ 759,796	\$ 951,982	\$ 2,312,759	\$ 2,376,378
Excess (deficiency) of revenue over expenses	(561)	5,391	5,701	(180,182)	(169,651)	(63,619)
Transfer during the year	-	-	(100,000)	100,000	-	-
NET RESTRICTED ASSETS, END OF YEAR	\$ 14,877	\$ 590,934	\$ 665,497	\$ 871,800	\$ 2,143,108	\$ 2,312,759

The accompanying notes are an integral part of the financial statements.

THE COAST SUSTAINABILITY TRUST II**Statement of Cash Flows****Year Ended December 31, 2018**

	2018	2017
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (169,651)	\$ (63,619)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	-	(600)
Due to related parties	(4,616)	1,505
	(4,616)	905
Cash flow from operating activities	(174,267)	(62,714)
INVESTING ACTIVITY		
Proceeds on disposal of investments	170,952	66,025
INCREASE (DECREASE) IN CASH FLOW	(3,315)	3,311
Cash - beginning of year	15,197	11,886
CASH - END OF YEAR	\$ 11,882	\$ 15,197

The accompanying notes are an integral part of the financial statements.

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

1. PURPOSE OF THE TRUST

The Coast Sustainability Trust II (the "Trust") was established by Declaration of Trust dated March 27, 2007.

On April 30, 2007, all assets and liabilities, contingent and otherwise, of the predecessor trust, The Coast Sustainability Trust (the "Predecessor Trust") were transferred to the Trust.

Pursuant to Order in Council No. 258, approved and ordered on March 28, 2002, Forest Renewal B.C. made a payment of \$35,000,000 to the Predecessor Trust. The funds were to be used to:

a) implement short term mitigation measures for workers, contractors, communities and First Nations on whom the Land and Resource Management Plans ("LRMP") in the Central Coast, North Coast and the Queen Charlotte Islands - Haida Gwaii had negative impacts; and

b) to mitigate the longer term impacts of implementing these plans.

During prior years, the Predecessor Trust made all required short-term mitigation payments to workers and contractors.

During prior years, the Predecessor Trust received \$254,000 in donor-directed funds to be used for Ecosystem Based Management related Land Use Planning ("EBM-LUP Subtrust") in the Predecessor Trust geographical areas and \$145,000 in donor-directed funds to be used for Economic, Scientific and Adaptive Management Development and Planning ("ESAMDAP Subtrust"). These funds were to be distributed pursuant to specific donor instructions. The Trustee administered the distribution of the funds and prepared the related funding agreements. In accordance with the terms of the EBM-LUP Subtrust and the ESAMDAP Subtrust, these funds were not to be co-mingled with other funds of the Predecessor Trust.

The Trust Deed that created the Predecessor Trust stipulated that it was to terminate on March 31, 2007, and allowed the Trustee two years from that date to determine the disposition of any remaining funds. In anticipation of the termination of the Predecessor Trust, all the Advisory Board and Regional Steering Committee members as well as all First Nations, organized communities and Regional Districts that were potential beneficiaries of the Predecessor Trust, were asked to comment on the disposition of remaining funds. The unanimous response was that the Predecessor Trust should be rolled over into a new trust with similar guidelines to the Predecessor Trust, with certain changes.

The Trustee considered submissions made by various representatives of beneficiary groups and the Advisory Board, and decided to implement the following changes:

1. The maximum possible contribution of the Trust to any specific Communities Matching Fund project was increased from \$100,000 to \$250,000; and
2. The Trust may contribute up to 75% of the first \$50,000 of any specific Communities Matching Fund project's costs, instead of the prior maximum of 50%.

The EBM-LUP and the ESAMDAP Subtrusts were rolled into a new Ecosystem Based Management Working Group ("EBMWG") Subtrust effective April 30, 2007. An additional \$620,000 was received from the Province of British Columbia to fund the EBMWG in a prior period, and a further \$1,024,320 was received from the Province of British Columbia in a prior year. The EBMWG Subtrust was discontinued in a prior year, and the remainder of the funds were transferred to the Ecosystem Based Management Adaptive Management ("EBMAM") Subtrust.

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

2. BENEFICIARIES OF THE TRUST

The beneficiaries of the Trust are:

- a) municipalities and unincorporated areas located in certain Regional Districts;
- b) any band (as defined by the Indian Act) located in specified geographical areas; and
- c) any other person or entity appointed by the Trustee as beneficiary in accordance with the Declaration of Trust.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations as issued by the Accounting Standards Board in Canada and include the following significant accounting policies:

(a) Restricted Fund Method

The Trust employs fund accounting, using the accrual method of accounting for transactions. The Trust's net assets consist of \$2,143,108 (2017 - \$2,312,759) in contributions, including investment income earned on those contributions, that are subject to the externally imposed restrictions contained in the Declaration of Trust. The restrictions stipulate that the resources be maintained in the Trust until required for qualifying disbursements to the Trust's beneficiaries (see Note 1 and Note 2).

The Trust comprised the following funds during the year:

i) Community Matching Fund ("CMF")

This fund is used to provide assistance to communities and First Nations that have been negatively affected by provincial government decisions related to the Land and Resources Management Plan ("LRMP") process in the specified areas. Funds can only be disbursed from the Trust if they are matched at a minimum of a 25%/75% basis, for the first \$50,000 of any specific project's costs, and 50%/50% basis thereafter, with unencumbered funds from sources other than the provincial government.

ii) Ecosystem Based Management Matching Fund ("EBMMF")

The amount initially allocated to this fund was \$5,000,000 of the original \$35,000,000 paid by Forest Renewal B.C. to the Predecessor Trust. This amount grew to \$5,618,431 in prior years, but no funds were disbursed until 2011. During that year the Trustee, on the advice of the Trust's Advisory Board, allocated the EBM Matching Fund as follows:

1. \$2,000,000 was allocated to the Community Matching Fund, to be allocated equally among the 5 Regional Steering Committees;
2. \$1,000,000 was set aside to support training for forest workers. That amount was further allocated equally among the 5 Regional Steering Committee areas; and
3. The balance was to be used to match \$2,767,713 in matching funds that was received from the BC Forestry Revitalization Trust II in order to provide mitigation to forest workers and replaceable logging contractors in Haida Gwaii that were negatively impacted by the implementation of EBM, and to pay related administrative expenses to facilitate this mitigation.

(continues)

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

iii) Ecosystem Based Management Adaptive Management ("EBMAM") Subtrust

This donor directed subtrust is to be used to provide funding for certain projects in the Plan Area, defined as the Central Coast, the North Coast and the Queen Charlotte Islands - Haida Gwaii. The projects are intended to support the successful implementation and management of an Adaptive Management ("AM") program that supports the goals of EBM within the Plan Area. The fund is also to be used to provide funding for projects approved by the Coastal First Nations and the Nanwakolas EBM Forums and the EBM representative of the Province of British Columbia.

iv) Landscape Reserve Planning ("LRP") Subtrust

This donor directed subtrust is intended to fund certain projects in specific Central Coast and North Coast areas. The subtrust is intended to fund landscape reserve planning supporting the goals of EBM within the specific areas and to provide to First Nations that are members of the Joint Land & Resource Forum ("JLRF") in the specific areas the capacity to develop landscape reserve plans.

The Trustee allocates administration expenses among these funds and subtrusts based on the level of activity.

(b) Revenue Recognition

Investment income is recorded as received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

The Trust uses the restricted fund method of accounting for contributions, which are recognized as revenue in the appropriate restricted fund when received.

(c) Allocation of Expenses

The trust allocates certain of its general support expenses by identifying the appropriate basis of allocating each component expense, and applies that basis consistently each year.

(d) Cash

Cash includes balances with banks and short-term investments with maturities of three months or less, unless management expects to renew the investments upon maturity.

(continues)

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investments

Investments consist of Canadian provincial government bonds, Banker's Acceptances and public company bonds. Investments are carried at amortized cost, less any impairment.

(f) Use of Assumptions and Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on the Trustee's knowledge of current events and actions the Trust may undertake in the future, actual results may differ from the estimates. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

(g) Financial Instruments

The Trust recognizes its financial instruments when the Trust becomes party to the relevant contractual provisions. 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 CICA 3840 Related Party Transactions.

The Trust measures cash at fair value. All other financial assets and liabilities are subsequently measured at amortized cost. The carrying value of financial assets and liabilities reflected in the statement of financial position approximate their respective fair values.

4. MATCHING FUNDS

The Matching Fund portions of the Trust are to be used to fund certain community and industry initiatives to mitigate adverse impacts from Land and Resources Management Plan ("LRMP") decisions and Ecosystem Based Management ("EBM") in specified areas.

Any disbursements from the Communities Matching Fund ("CMF") are required to be matched on at least a 25%/75% basis for the first \$50,000 of any project, and on a 50%/50% basis thereafter, and on at least a 50%/50% basis for all Ecosystem Based Management Matching Fund ("EBMMF") projects, with unencumbered funds from sources other than the provincial government. The Trustee and his Advisory Board prepared guidelines with respect to the CMF and the EBMMF in accordance with the directives in the Trust Deed that created the predecessor trust.

a) Community Matching Funds to Mitigate the Effects of LRMP

In accordance with the Trust's guidelines, the Trustee solicited the formation of Regional Steering Committees ("RSC's") representing each of the five distinct geographical areas covered by the Trust. Each RSC is responsible for reviewing and approving proposals presented to the Trustee for funding. During a prior year, the cumulative disbursements of three RSC's reached the maximum allocated amounts. Accordingly, the RSC's for Comox Strathcona, Mount Waddington and Queen Charlotte Islands - Haida Gwaii were disbanded.

The remaining two RSC's were active during the current year and certain funds were disbursed or committed. The maximum amounts of funds allocated to each of the five RSC's were as follows:

(continues)

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

4. MATCHING FUNDS (continued)

Central Coast RSC	\$ 4,100,000
Comox Strathcona RSC	4,100,000
Mount Waddington RSC	4,100,000
North Coast RSC	4,100,000
Queen Charlotte Islands - Haida Gwaii RSC	<u>4,100,000</u>
	<u>\$ 20,500,000</u>

The above allocations are prior to any disbursement of funds.

b) EBM Matching Funds to Mitigate the Effects of EBM

The balance of the EBMMF, after allocating \$1,000,000 to Forest Worker training and \$2,000,000 to the CMF was to be used to match \$2,767,713 in matching funds that were received from the BC Forestry Revitalization Trust II in a prior year. After providing mitigation to forest workers and replaceable logging contractors in Haida Gwaii that were negatively impacted by the implementation of EBM, paying for Forest Worker training, and paying for the administrative expenses to facilitate this mitigation and training support, a balance of approximately \$300,000 will remain. The Trustee will request direction from the Advisory Board on how to employ those funds.

5. DONOR DIRECTED FUNDS AND SUBTRUSTS

For donor directed subtrusts, the Trustee performs an administrative and managerial function only over the funding process and does not get involved in the funding decisions. This applies to the EBM Adaptive Management subtrust and the Landscape Reserve Planning subtrust.

The donors establish the process to give instructions to the Trustee. The Trustee prepares funding agreements in accordance with the instructions, subject to certain approvals. The Trustee is not required to evaluate requests for releases of funds, but is entitled to rely on instructions as long as they are given in accordance with the process established by the donors.

The Trustee monitors the cumulative amounts of funds released for each project to ensure that the cumulative amounts disbursed do not exceed the total amounts authorized.

6. INVESTMENTS

	2018	2017
Fixed income investments		
Canadian provincial government bonds (market value \$1,128,682)	\$ 1,131,204	\$ 1,804,829
Public company bonds - chartered banks (market value \$873,966)	877,551	506,481
GIC's (market value \$130,000)	<u>131,603</u>	<u>-</u>
	2,140,358	2,311,310
Less: current portion	<u>(1,915,359)</u>	<u>(1,048,208)</u>
Non-current portion	<u>\$ 224,999</u>	<u>\$ 1,263,102</u>

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

7. RELATED PARTY TRANSACTIONS

During the year, the Trust made payments to the Trustee, Mr. Eric van Soeren, for services rendered.

	2018	2017
Payments to Trustee	\$ 27,593	\$ 40,362
Balance due to Trustee		
Amount due to Trustee is unsecured, non-interest bearing and due on demand	\$ 733	\$ 5,348

These transactions are in the normal course of operations and have been valued in these financial statements at the exchanged amount, which is the amount of consideration established and agreed to by the related party.

8. INCOME TAXES

The Trustee is of the opinion that the Trust is either a non-profit organization or a public body performing a function of government and is therefore not a taxable entity. In order to confirm the predecessor Trust's status for income tax purposes, the Trustee applied to the Canada Revenue Agency (the "CRA") for a ruling during a prior year.

Although the Rulings Directorate of the CRA declined to provide a ruling in writing, the Trustee was advised verbally that the predecessor Trust was a holder of a power of appointment granted by the Government of the Province of British Columbia and accordingly, was exempt from income tax as a quasi-governmental agency administering a government program. The Trustee is of the opinion that the tax treatment for the Trust will be the same. In a prior year the Trustee received a Notice of Assessment confirming that the Trust was not subject to Income Taxes.

9. GOODS AND SERVICE TAXES/HARMONIZED SALES TAXES

The Trustee has obtained advice from the CRA that the Trust will not be able to recover any Input Tax Credits.

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

10. COMMITMENTS

The Trustee works closely with the RSC's to solicit funding proposals for projects which meet the Trust's guidelines. Upon acceptance of a proposal, the Trustee enters into a funding agreement with the potential recipient. The agreement ordinarily confirms the Trust's commitment for certain disbursements, the expected timing of the disbursements and the criteria for the release of funds:

	2018	2017
The Trust had made disbursements and had committed to make disbursements out of the Communities Matching Fund as follows:		
Committed to beneficiaries, contingent on availability of matching funds	\$ 408,240	\$ 574,330
Disbursed during the year - net	166,090	33,000
Disbursed during prior years by the Predecessor Trust and the Trust	19,470,083	19,437,083
	<u>\$ 20,044,413</u>	<u>\$ 20,044,413</u>

The Trust had made disbursements out of the Ecosystem Based Management Matching Fund as follows:

Disbursed for forest workers training purposes during the year	\$ 1,242	\$ 6,985
Disbursed during prior years	5,759,951	5,752,966
	<u>\$ 5,761,193</u>	<u>\$ 5,759,951</u>

11. FINANCIAL INSTRUMENTS

The Trust, as part of its operations, carries a number of financial instruments. It is management's opinion that the Trust is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

(a) 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 risk primarily related to their fixed income investments, as disclosed in Note 6. However, the Trust intends to hold all of its fixed income investments to maturity therefore the exposure to interest rate risk is mitigated.