

THE COAST SUSTAINABILITY TRUST II

Financial Statements

Year Ended December 31, 2020

THE COAST SUSTAINABILITY TRUST II

Index to Financial Statements

Year Ended December 31, 2020

	Page
AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Revenues and Expenditures	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13

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

***Alnashir Rashid, CPA, CGA**



INDEPENDENT AUDITOR'S REPORT

To the Trustee of The Coast Sustainability Trust II

Report on the Financial Statements

Opinion

We have audited the financial statements of The Coast Sustainability Trust II (the Trust), which comprise the statement of financial position as at December 31, 2020, and the statements of revenues and expenditures, changes in net assets 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, 2020, 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with 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.

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 to liquidate the Trust or 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.

(continues)

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

Auditor's 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 auditor's 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.

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.

We 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.

Richmond, British Columbia
February 16, 2021

Schroeder Rashid LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

THE COAST SUSTAINABILITY TRUST II**Statement of Financial Position****December 31, 2020**

	2020	2019
ASSETS		
CURRENT		
Cash	\$ 47,333	\$ 39,624
Investments - current portion (Note 6)	858,658	1,814,109
	905,991	1,853,733
INVESTMENTS (Note 6)	1,117,309	229,999
	<u>\$ 2,023,300</u>	<u>\$ 2,083,732</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 6,825	\$ 7,349
Due to related party (Note 7)	259	1,489
	7,084	8,838
NET ASSETS		
Restricted	2,016,216	2,074,894
	<u>\$ 2,023,300</u>	<u>\$ 2,083,732</u>

APPROVED BY THE TRUSTEE 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, 2020

	EBM-AM	EBM- Matching Fund	Community Matching Fund	2020	2019
REVENUE					
Interest income	\$ 10,742	\$ 11,625	\$ 13,680	\$ 36,047	\$ 42,855
EXPENSES					
Audit fees	130	3,510	2,860	6,500	7,000
Bank charges and interest	200	230	213	643	829
Disbursements to beneficiaries (Note 10)	-	23,778	50,000	73,778	84,015
GST/HST expense (Note 9)	19	465	479	963	1,241
Office	-	-	258	258	386
Professional fees	-	270	-	270	268
Trustee fees (Note 7)	246	6,649	5,418	12,313	17,330
	595	34,902	59,228	94,725	111,069
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 10,147	\$ (23,277)	\$ (45,548)	\$ (58,678)	\$ (68,214)

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, 2020

	EBM-AM	EBM-Matching Fund	Community Matching Fund	2020	2019
NET RESTRICTED ASSETS, BEGINNING OF YEAR	\$ 610,830	\$ 668,854	\$ 795,210	\$ 2,074,894	\$ 2,143,108
Excess (deficiency) of revenue over expenses	10,147	(23,277)	(45,548)	(58,678)	(68,214)
Transfer during the year	-	-	-	-	-
NET RESTRICTED ASSETS, END OF YEAR	\$ 620,977	\$ 645,577	\$ 749,662	\$ 2,016,216	\$ 2,074,894

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

THE COAST SUSTAINABILITY TRUST II**Statement of Cash Flows****Year Ended December 31, 2020**

	2020	2019
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (58,678)	\$ (68,214)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(524)	(1,050)
Due to related party	(1,230)	756
Cash flow from operating activities	(60,432)	(68,508)
INVESTING ACTIVITY		
Proceeds on disposal of investments	68,141	96,250
INCREASE IN CASH FLOW	7,709	27,742
Cash - beginning of year	39,624	11,882
CASH - END OF YEAR	\$ 47,333	\$ 39,624

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

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2020

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, 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, 2020

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 \$2,016,216 (2019: \$2,074,894) in contributions, including investment income earned on those contributions, that are subject to the externally imposed restrictions contained in the Declaration of Trust and stipulated by subsequent donors to the subtrusts. 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, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

This donor directed that the 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.

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, 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investments

Investments consist of Canadian provincial government bonds, Banker's Acceptances, public company bonds, and GICs as an investment vehicle. 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.

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, 2020

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 \$290,000 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.

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

	2020	2019
Fixed income investments		
Canadian provincial government bonds (market value \$966,500; 2019: \$484,923)	\$ 968,032	\$ 484,553
Canadian crown government bonds (market value \$340,420; 2019: \$233,394)	338,138	233,344
Public company bonds - chartered banks (market value \$139,978; 2019: \$193,638)	140,070	193,715
GIC's (market value \$527,000; 2019: \$1,124,711)	<u>529,727</u>	<u>1,132,496</u>
	1,975,967	2,044,108
Less: current portion	<u>(858,658)</u>	<u>(1,814,109)</u>
	<u>\$ 1,117,309</u>	<u>\$ 229,999</u>

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2020

7. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

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

	2020	2019
Payments to Trustee	\$ 12,313	\$ 17,330
Balance due to Trustee		
Amount due to Trustee is unsecured, non-interest bearing and due on demand	\$ 259	\$ 1,489

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, 2020

10. COMMITMENTS

The Trustee works closely with the RSCs 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:

	2020	2019
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	\$ 277,500	\$ 327,500
Disbursed during the year - net	50,000	80,740
Disbursed during prior years by the Predecessor Trust and the Trust	19,716,913	19,636,173
	<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	\$ 23,778	\$ 3,275
Disbursed during prior years	5,764,468	5,761,193
	<u>\$ 5,788,246</u>	<u>\$ 5,764,468</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.