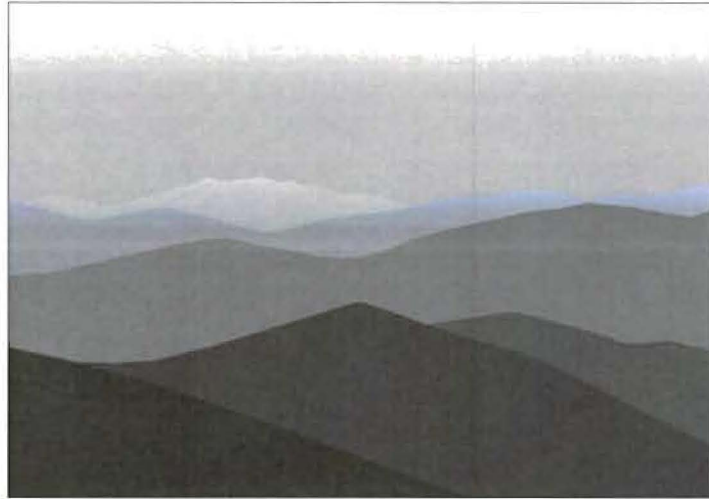


The Coast Sustainability Trust II



**December 31, 2022
Annual Report**

**Trustee
Eric van Soeren**

The Coast Sustainability Trust II

Report of the Trustee as of December 31, 2022

General

The Province of British Columbia created the Coast Sustainability Trust (CST) in 2002 to mitigate the negative effects on workers, contractors and communities, including First Nations, of:

1. provincial government land use decisions related to the Land and Resource Management Plan process; and
2. the implementation of Ecosystem Based Management (EBM)

in the Central Coast, North Coast, Haida Gwaii, Comox Strathcona Regional District and the Regional District of Mount Waddington. In December 2007 the CST was rolled over into the CST II.

CST II Account Balances and Distributions

As of December 31, 2022, the CST II balances and distributions were as follows:

Account Balances

Community Matching Fund Account	\$497,525
EBM Adaptive Management Account	\$623,820
EBM Matching Fund Account	<u>\$475,780</u>
Total available funds	<u>\$1,597,125</u>

Distributions to beneficiaries to date

Forest Worker Severance	LRMP process	\$2,933,857
	EBM	\$2,155,976
Contractor Mitigation	LRMP process	\$10,749,764
	EBM	\$2,983,342
Community Matching Funds		\$20,000,000
EBM Adaptive Management Sub-trust		\$129,234
EBM Land Use Planning Sub-trust		\$209,068
ESAMDAP Sub-trust		\$132,486
EBM Training		\$804,100
EBMWG Sub-trust		\$1,633,855
Landscape Reserve Planning Sub-trust		<u>\$735,000</u>
Total Distributions to beneficiaries		<u>\$42,466,682</u>

Total available funds plus distributions **\$44,063,807**

In addition to the original \$35,000,000 given to the CST, five other sub-trusts of the CST and CST II were funded by the province. These five sub-trusts combined have received a total of \$3,373,320 from the Province of BC. Further, during 2011 the BC Forestry Revitalization Trust advanced \$2,767,714 to the CST to help fund the mitigation of workers and contractors in Haida Gwaii that were negatively

impacted by the implementation of EBM. Income to date from investments of the CST has also exceeded total administration expenses by over \$2.9 million so there was no need to use any of the capital of the CST to fund its administration. This allows over \$4.0 million more than originally planned to go to beneficiaries.

Community Matching Fund Account

When the CST Community Matching Fund started operations, the Advisory Board agreed that decisions related to specific initiatives in the communities should be made at the local level as opposed to by the broader Advisory Board. Five Regional Steering Committees (RSCs) were formed. They were the Central Coast, Comox Strathcona, Mount Waddington, the North Coast, and Haida Gwaii.

In the case of Comox Strathcona, Haida Gwaii, Mount Waddington and the North Coast all the available funds have been allocated to a variety of projects and have been disbursed, so those RSCs have been disbanded.

All the available funds for the Central Coast RSC have also been allocated, but there are funds that have not yet been disbursed to the Nuxalk First Nation. The projects to which those funds are allocated are under way, and the funds are expected to be disbursed over the next few months.

Leverage of CST Community Matching Funds

Each of the five RSCs were allocated \$4,100,000 to use towards developing Regional Economic Development Strategies and to support individual initiatives that fit those strategies. As of December 31, 2022, funding has been and remains approved for a total of 272 projects. An additional 35 projects were approved but were subsequently abandoned by the applicant for a variety of reasons and did not receive CST funding. The main reason for applicants abandoning their projects was an inability to source sufficient matching funds or other forms of financing.

The total commitment from the CST is \$20,500,000, for projects worth a total of \$167,923,775. On average a total of \$8.19 goes into approved projects for each \$1.00 of CST funds committed.

Status of Community Matching Fund funding requests

The table on the following page shows the total value of the requests for assistance, and the progress in approving funding for each of the RSCs. As of December 31, 2022, Funding Agreements have been negotiated with proponents of all the approved projects.

Types of Projects Approved for Community Matching Fund Assistance

Regional Steering Committee	Total Project Size	Amount Requested of CST	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	\$33,865,780	\$7,666,220	\$3,566,053	\$0	68	\$4,100,167	\$3,600,167
Comox Strathcona	\$59,593,292	\$14,249,418	\$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	\$75,666,499	\$10,384,991	\$6,284,991	\$0	44	\$4,100,000	\$4,100,000
QCI Haida Gwaii	\$60,832,006	\$8,258,769	\$4,158,769	\$0	57	\$4,100,000	\$4,100,000
Total:	\$344,203,124	\$51,179,472	\$30,679,473	\$0	272	\$20,500,000	\$20,000,000

To stimulate economic activity, each RSC considered and approved projects that fit into the strategic priorities of their area or, if no formal strategic priorities had been developed, projects that clearly fell into the range of initiatives that likely would have been 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:

Types of projects approved for CST Funding

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	\$25,105,846	\$4,100,167	\$87,501	\$757,090	\$130,854	\$1,436,481	\$584,396	\$1,103,845
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	\$23,422,772	\$4,100,000	\$58,147	\$980,120	\$50,000	\$788,856	\$38,640	\$2,184,237
Haida Gwaii	\$47,740,201	\$4,100,000	\$200,549	\$274,060	\$162,398	\$1,836,754	\$165,232	\$1,461,007

Total:	\$167,923,775	\$20,500,000	\$450,097	\$3,440,381	\$358,252	\$6,538,947	\$1,018,268	\$8,694,055
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Percent of Approved Amounts

2.2%	16.8%	1.7%	31.9%	5.0%	42.4%
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In the Mount Waddington and Comox Strathcona Regional Districts and on the North Coast the highest concentration of project approvals related to the enhancement of tourism opportunities, with an emphasis on eco and cultural tourism. Examples are support for Nisga'a in the construction of a Welcome House in Gitwinksihlkw, the BC Ocean Boating Tourism Association, the construction or renovation of First Nations Big Houses and carving sheds, construction of First Nations owned tourist

accommodation in Haida Gwaii, Kitamaat and Klemtu, support for tourism associations on the Central Coast, Northern Vancouver Island and Haida Gwaii, production of an Art Route brochure in Haida Gwaii, assistance to the Haida in the construction of a cultural center and a totem pole carving project, assistance to the Kwakiutl First Nation of a resort upgrade, assistance to the Bella Coola Valley Museum to help make it an even better attraction, funding for self directed walking tours in Campbell River and the Comox Valley, a mountain Sports Centre and an outdoor wilderness centre at Mount Washington, bear watching operations in Phillips Arm for the Kwiakah First Nation and in the Orford River Estuary for the Homalco First Nation, and the promotion of movie film sites in northern Vancouver Island. In aggregate, 42.4% of CST funding has gone to assist tourism related projects.

Infrastructure improvements are another primary focus, and the biggest one in the Central Coast and Haida Gwaii. Some are aimed at enhancing tourism, such as adding an interpretive garden, salt water aquarium and movable webcams to the Visitor Information Centre in the Village of Queen Charlotte, creating or improving destination hiking or mountain biking trails, establishing a waterfront trail in Prince Rupert and renovating another so it is safe to use again, renovation of an RV park in the Village of Queen Charlotte, construction of RV and campground facilities and an all season all weather boat ramp in Campbell River, improving the dock at Holberg, upgrading the seaplane ramp in Seal Cove, Prince Rupert, improving cruise ship terminals, docks, harbours and marinas, and funding the rehabilitation of a resource trail and a new Bighouse in Bella Coola for the Nuxalk Nation. Other projects enhance industrial or commercial opportunities, such funding an industrial park in Port Alice, building a new town square in the Village of Queen Charlotte, or assistance in creating an Economic Development Zone on Quinsam Indian Reserve 12 in Campbell River. The Central Coast RSC voted to contribute \$35,000 to a Central Coast Business Enterprise and Visitor Centre, \$302,500 towards a project that provides Broadband Internet to the communities on the Central Coast, \$400,000 to help the Wuikinuxv acquire road building and maintenance equipment and barge facilities that would have been lost to them on the withdrawal of Western Forest Products from their area, and \$33,087 to the Wuikinuxv Economic Development Corporation to refurbish a tugboat. Funding was also approved to assist in the installation of Broadband Internet in seven Northern Vancouver Island communities. In aggregate, 31.9 % of CST funding has gone to assist infrastructure related projects.

A third focus is shellfish aquaculture and both shellfish and fin fish processing. The Comox Strathcona and Mount Waddington RSCs jointly elected to help fund a Shellfish Industry Investment Attraction Initiative promoted by the Vancouver Island Economic Developers Association (VIEDA). This was expanded to assist in attracting investment for shellfish processing. Support was given to the BC Shellfish Growers Association to help it with a business and market development initiative. The Homalco First Nation received a grant to assist in developing a scallop farming venture. The Central Coast, North Coast and Haida Gwaii RSCs agreed to support a combined North Coast – Skeena First Nations Stewardship Society and Turning Points Initiative Society application for assistance in developing a coast wide shellfish aquaculture initiative. The Central Coast RSC has also provided support to the Heiltsuk Nation Shellfish Co-operative, the Kitasoo Wild Fisheries Operation and the Bella Coola Harbour Authority Ice Plant. The North Coast RSC has provided funding to assist in performing Biotoxin studies. On Haida Gwaii, the Skidegate and the Old Massett Haida have received funding to help in training shellfish farm workers at two pre-commercial pilot projects. The Comox Strathcona RSC has also agreed to help the Komox First Nation in its plans to build a new shellfish processing facility. In aggregate, 16.8% of CST funding has gone to assist aquaculture and processing related projects.

CST funding has been fairly evenly split, with 53.1 % of funding going to First Nations sponsored initiatives, and 46.9 % going to civic community sponsored initiatives. In fact, a significant number of

initiatives related to shellfish aquaculture, tourism, planning and broadband internet installations were joint initiatives between First Nations and civic communities.

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 when Project Completed	Part time Jobs when Project Completed
Central Coast	63	138	268	269
Comox Strathcona	84	249	202	209
Mount Waddington	86	268	180	222
North Coast	126	174	186	107
Haida Gwaii	217	259	100	119
Total:	576	1,088	936	926

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 in the CST operating area.

Eleven replaceable contractors and 35 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.

In addition, 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 that want to enter the harvesting side of the forest industry. Due to a lack of applications in some of the Regional Steering Committee areas, the Advisory Board decided in Q1 2021 to open the training opportunities to the entire CST area. As a result, more applications and enquires have been received, and more approvals have been made. To date 37 training initiatives worth \$1,023,983 have been approved. Of those, approvals worth \$186,958 were abandoned, resulting in net approvals of \$837,025. All the net approvals have now been disbursed, for total disbursements to date of \$804,100. 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.

EBM Adaptive Management sub-trust

The goal of the EBM Adaptive Management sub trust is to invest in the Central Coast, North Coast and Haida Gwaii plan areas by:

1. funding the successful implementation and management of an Adaptive Management program that supports the goals of Ecosystem Based Management,
2. funding projects in an Annual Work Plan approved by the Joint Land and Resource Forum, and
3. investing in and supporting Adaptive Management, Ecosystem Based Management, and other specific uses as directed by the donor.

To date, five contracts totaling \$139,449 have been signed related to Ecosystem Based Management Adaptive Management on the North and Central Coast. All those projects have been completed, and three came in under budget. Disbursements of \$129,234 have been made. The balance of the funds allocated to the EBM Adaptive Management sub-trust remains available for future projects. The Trustee is currently in discussions with staff from the Ministry of Forests about possible new initiatives that will utilize these funds. At present it appears significant disbursements will likely not be made until about the middle of 2023.

Looking Ahead

During 2023, I expect the following activity in CST II:

- The last of the committed Community Matching Fund funding will be disbursed to the Nuxalk Nation, depending on the Nation's capacity to move the projects along as quickly as they hope.
- The EBM Adaptive Management sub-trust should become active.
- More forest worker training programs will be developed by industry, First Nations and the Province of BC and be funded by the CST.

Eric van Soeren

Trustee

THE COAST SUSTAINABILITY TRUST II
Financial Statements
Year Ended December 31, 2022

THE COAST SUSTAINABILITY TRUST II

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Year Ended December 31, 2022

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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, 2022, 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, 2022, 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 28, 2023

Schroeder Rashid LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

THE COAST SUSTAINABILITY TRUST II
Statement of Financial Position
December 31, 2022

	2022	2021
ASSETS		
CURRENT		
Cash	\$ 29,823	\$ 15,781
Investments - current portion <i>(Note 6)</i>	<u>1,394,035</u>	<u>940,793</u>
	1,423,858	956,574
INVESTMENTS <i>(Note 6)</i>	<u>180,003</u>	<u>874,517</u>
	<u>\$ 1,603,861</u>	<u>\$ 1,831,091</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 5,775	\$ 6,825
Due to related party <i>(Note 7)</i>	<u>961</u>	<u>648</u>
	6,736	7,473
NET ASSETS		
Restricted	<u>1,597,125</u>	<u>1,823,618</u>
	<u>\$ 1,603,861</u>	<u>\$ 1,831,091</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, 2022

	EBM-AM	EBM- Matching Fund	Community Matching Fund	2022	2021
REVENUE					
Interest and other investment income	\$ 7,288	\$ 5,954	\$ 5,272	\$ 18,514	\$ 12,624
EXPENSES					
Audit fees	1,350	1,934	2,216	5,500	6,500
Bank charges and interest	199	229	230	658	660
Office	-	-	187	187	479
Professional fees	-	269	-	269	268
Trustee fees <i>(Note 7)</i>	4,420	8,892	7,963	21,275	23,284
GST/HST expense <i>(Note 8)</i>	68	879	409	1,356	1,534
Disbursements to beneficiaries <i>(Note 10)</i>	-	82,675	133,087	215,762	172,497
	6,037	94,878	144,092	245,007	205,222
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ 1,251	\$ (88,924)	\$ (138,820)	\$ (226,493)	\$ (192,598)

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, 2022

	EBM-AM	EBM-Matching Fund	Community Matching Fund	2022	2021
NET RESTRICTED ASSETS, BEGINNING OF YEAR	\$ 622,569	\$ 564,704	\$ 636,345	\$ 1,823,618	\$ 2,016,216
Excess (deficiency) of revenue over expenses	1,251	(88,924)	(138,820)	(226,493)	(192,598)
Transfer during the year	-	-	-	-	-
NET RESTRICTED ASSETS, END OF YEAR	<u>\$ 623,820</u>	<u>\$ 475,780</u>	<u>\$ 497,525</u>	<u>\$ 1,597,125</u>	<u>\$ 1,823,618</u>

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

THE COAST SUSTAINABILITY TRUST II**Statement of Cash Flows****Year Ended December 31, 2022**

	2022	2021
OPERATING ACTIVITIES		
Deficiency of revenue over expenses	\$ (226,493)	\$ (192,598)
Changes in non-cash working capital:		
Accounts payable and accrued liabilities	(1,050)	-
Due to related party	313	389
Cash flow from operating activities	(227,230)	(192,209)
INVESTING ACTIVITIES		
Purchase of investments	(759,998)	(855,003)
Proceeds on disposal of investments	1,001,270	1,015,660
Cash flow from investing activities	241,272	160,657
INCREASE (DECREASE) IN CASH FLOW	14,042	(31,552)
Cash - beginning of year	15,781	47,333
CASH - END OF YEAR	\$ 29,823	\$ 15,781

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

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2022

I. 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, 2022

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 \$1,597,125 (2021: \$1,823,618) 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. Due to a lack of applications in some of the Regional Steering Committee areas, the Advisory Board decided during the first quarter of 2021 to open the training opportunities to the entire specified areas.

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, 2022

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.

(e) Investments

Investments consist of Canadian provincial government bonds, Banker's Acceptances, public company bonds, and guaranteed investment certificates 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.

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2022

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 ("RSCs") 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 prior years the cumulative disbursements of four of the RSC's reached the maximum allocated amounts. Accordingly, the RSC's for Comox Strathcona, Mount Waddington, Queen Charlotte Islands - Haida Gwaii and the North Coast were disbanded.

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

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 \$475,780 (2021: \$564,704) remained as at December 31, 2022. The Advisory Board agreed that the Trustee would use the remaining fund for further training projects.

THE COAST SUSTAINABILITY TRUST II

Notes to Financial Statements

Year Ended December 31, 2022

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

	2022	2021
Fixed income investments		
Canadian provincial government bonds (market value \$860,007; 2021: \$812,038)	\$ 871,051	\$ 816,430
Canadian crown government bonds (market value \$147,049; 2021: \$189,534)	151,252	191,079
Public company bonds - chartered banks (market value \$186,187; 2021: \$138,542)	193,037	141,131
Guaranteed investment certificates (market value \$355,000; 2021: \$665,000)	358,698	666,670
	1,574,038	1,815,310
Less: current portion	(1,394,035)	(940,793)
	<u>\$ 180,003</u>	<u>\$ 874,517</u>

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.

	2022	2021
Trustee fees	<u>\$ 21,275</u>	<u>\$ 23,284</u>
Balance due to Trustee		
Amount due to Trustee is unsecured, non-interest bearing and due on demand	<u>\$ 961</u>	<u>\$ 648</u>

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. 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, 2022

9. 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.

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:

	2022	2021
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	\$ 500,000	\$ 427,500
Disbursed during the year - net	133,087	100,000
Disbursed during prior years by the Predecessor Trust and the Trust	19,866,913	19,766,913
	<u>\$ 20,500,000</u>	<u>\$ 20,294,413</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	\$ 82,675	\$ 72,497
Disbursed during prior years	5,860,743	5,788,246
	<u>\$ 5,943,418</u>	<u>\$ 5,860,743</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.

(continues)

THE COAST SUSTAINABILITY TRUST II
Notes to Financial Statements
Year Ended December 31, 2022

II. FINANCIAL INSTRUMENTS *(continued)*

(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.