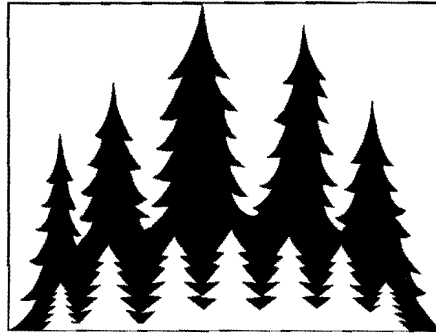


The BC Forestry Revitalization Trust II



**December 31, 2018
Annual Report**

**Trustee
Eric van Soeren**

BC Forestry Revitalization Trust II

Report of the Trustee

In March 2003 the province of British Columbia established the BC Forestry Revitalization Trust (BCFRT) and funded it with \$75,000,000. The Trust Deed that created the BCFRT called for it to end in 2008. However, its mandate was not completed by then, so in 2008 the BCFRT was rolled into the BCFRT II. The original mandate of the BCFRT was to provide mitigation to forest workers and replaceable contractors that were negatively impacted by timber reallocations resulting from the *Forestry Revitalization Act*.

In April 2004 the province appointed Eric van Soeren as Trustee. Shortly after that he appointed a seven-member Advisory Board, as required by the Trust Deed. Advisory Board membership as of December 31, 2018 was as follows:

Michael Armstrong, Board Member representing the BC Council of Forest Industries

Jim Girvan, Board Member representing the Truck Loggers Association

Norm McLead, representing the United Steelworkers of America – IWA Council

Tim Menning, Board Member representing the Interior Logging Association and the North West Logging Association

John Allan, Board Member representing the Ministry of Forests, Lands, Natural Resource Operations and Rural Development

Brian Butler, Board Member representing the United Steelworkers of America – IWA Council

Susan Yurkovich, Board Member representing the BC Council of Forest Industries

During 2004 the Advisory Board developed draft forest worker and contractor mitigation guidelines. Utilizing the best estimates of industry, seniority estimates obtained from the IWA pension plan, seniority estimates obtained from contractor industry associations, and the proposed guidelines, the Trustee arrived at an estimated cost of delivering the proposed guidelines. Based on that estimate, the Trustee determined that the BCFRT required approximately \$50,000,000 more than what was available in the BCFRT accounts as of December 31, 2004, plus what the BCFRT would likely earn in interest while holding mitigation funds in trust.

The Trustee and the Advisory Board approached the province to attempt to get sufficient extra funds to allow the draft mitigation guidelines to be finalized. On February 22, 2005 the legislature approved the request. Of that amount, \$40,000,000 was transferred to the BCFRT, and \$10,000,000 was held back by the Ministry of Forests and Range pending confirmation that the funds would be required. Therefore, the draft guidelines were finalized.

As of the end of 2011 all the workers and contractors had received the mitigation for which they were eligible based on the contractor and worker mitigation guidelines. However, there

were outstanding issues with respect to income taxes assessed to contractors that had received mitigation payments from the BCFRT.

Contractor Income Tax Liability

For several years there was uncertainty about the liability for income taxes payable on mitigation amounts received by replaceable contractors from the BCFRT and the BCFRT II. The position of the four logging contractor associations in BC was that the amounts should have been received tax free, either because they were a windfall payment, or because they were amounts received from a personal trust. Others took the position that the amounts received because of the loss of some or all of a replaceable contract should be treated as a capital gain. The Canada Revenue Agency took the position that all such amounts were to be treated and taxed as income.

The BCFRT II, the Loggers for Fair Taxation, the Minister of Forests, Lands and Natural Resource Operations, and the Premier of BC, worked on this problem for approximately four years. As a result, the Province of BC and the Advisory Board of the BCFRT II agreed to increase the contractor mitigation payments received by replaceable contractors by an amount equal to the income taxes paid or payable on the amounts previously disbursed. In order to facilitate that payment, the three previous BCFRT accounts were rolled into one new Contractor Mitigation Account early in 2012.

During the last quarter of 2011 letters were sent out to all contractors that received Contractor Mitigation funds from the BCFRT or the BCFRT II. Those letters invited the contractors to apply for extra mitigation if they had paid taxes on the previous amount(s) received or had been assessed but not yet paid taxes on the amount(s) received. 202 contractors (approximately 76%) responded. Of those, 8 declined to proceed because they had no taxable income in the year(s) they received BCFRT Contractor mitigation amounts. The other 24% were deemed to have accepted the payments as received and were not considered for a refund of any taxes paid on the contractor mitigation amounts received. In most cases it is likely they were not taxable in the year of receipt of those funds and would therefore not have received a refund in any case.

Another part of the negotiated arrangement called for Federal and Provincial Orders in Council to deem income tax refund amounts received from the BCFRT to be tax free, and that there will be a remission of interest and penalties on previously unpaid taxes related to the original contractor mitigation amounts. The required provincial Order in Council was filed on November 7, 2012. The matching required Federal Order in Council was filed on January 16, 2013. As a result, the BCFRT was able to start making disbursements in the first quarter of 2013.

To date the Canada Revenue Agency (CRA) has processed and made determinations of the incremental income tax impact of the receipt of Contractor Mitigation Funds for 193 of the 194 contractors that responded and wanted to proceed with a determination of their eligibility for a refund. The remaining contractor did not respond to requests for information from the CRA and his claim for a refund has been deemed to be abandoned. In addition, 2 contractors that received determination letters dispute the amount of incremental tax the CRA has determined they should have paid because of mitigation amounts received from the BCFRT.

The CRA and the contractors have recently agreed on a revised assessment for the relevant years, and the CRA is now reviewing those files to determine what the income tax impact of the tax mitigation receipts would have been in the relevant years based on the new Notice of Assessment.

Account Balances as at December 31, 2018

Account Balances	
2011 Contractor Mitigation Account	\$360,614
Total market value of BCFRT accounts	\$360,614
 Distributions to Beneficiaries to date	
Contractor Mitigation	\$70,748,591
Contractor Income Tax Refunds	\$7,653,585
Forest Worker Mitigation	\$43,079,279
Transferred to the Coast Sustainability Trust	<u>\$2,767,714</u>
Total Distributions to Beneficiaries	\$124,249,169
 Total available funds plus distributions	 \$124,609,783

A breakdown of the activity in the 2011 Contractor Tax Mitigation account to December 31, 2018 follows:

267	contractors received contractor mitigation payments
65	contractors did not reply to the BCFRT Trustee's tax refund letter
8	contractors replied but did not want to proceed
194	refund determination requests were sent to CRA
193	CRA determinations were received and forwarded to Contractors
1	contractor did not respond to CRA information requests so his claim was deemed to be abandoned
1	contractor chose not to accept a refund
131	contractors will not receive tax refunds
136	contractors will receive tax refunds
134	tax refund payments were made to December 31, 2017
2	tax refunds still to be made

Tax refunds paid to December 31, 2018	\$7,653,585
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Adequacy of Funds

The final cost of making contractors whole for income taxes assessed and paid or assessed and still not paid on the contractor mitigation amounts they received is still not known. The best estimate currently is between \$8.7 and \$9.0 million. The agreement with the province is that all existing funds in the BCFRT accounts would first be applied to compensate the contractors for taxes paid or payable. Once the BCFRT II funds were depleted, the province would replenish the BCFRT II as required to meet the additional obligations to the

contractors and the administration costs of the Trust. To date the province has contributed an additional \$1,500,000 to the BCFRT II. The best estimate at December 31, 2018 is that the province will be asked to provide a further \$700,000 to \$1,010,000 to the BCFRT II to allow it to meet its obligations.

THE BC FORESTRY REVITALIZATION TRUST II
Financial Statements
Year Ended December 31, 2018

THE BC FORESTRY REVITALIZATION 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 BC Forestry Revitalization Trust II

We have audited the accompanying financial statements of The BC Forestry Revitalization 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 BC Forestry Revitalization Trust II *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The BC Forestry Revitalization 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
January 31, 2019

Schroeder Rashid LLP.

CHARTERED PROFESSIONAL ACCOUNTANTS

SCHROEDER
RASHID LLP

THE BC FORESTRY REVITALIZATION TRUST II

Statement of Financial Position

December 31, 2018

	2018	2017
ASSETS		
CURRENT		
Cash	\$ 5,529	\$ 6,699
Investments - current portion (Note 5)	<u>355,526</u>	<u>371,708</u>
	<u>\$ 361,055</u>	<u>\$ 378,407</u>
LIABILITIES		
CURRENT		
Accounts payable and accruals	\$ 5,777	\$ 5,775
Due to related party (Note 6)	<u>853</u>	<u>126</u>
	<u>6,630</u>	<u>5,901</u>
NET ASSETS		
Restricted	<u>354,425</u>	<u>372,506</u>
	<u>\$ 361,055</u>	<u>\$ 378,407</u>

APPROVED BY THE TRUSTEE

 Trustee

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

THE BC FORESTRY REVITALIZATION TRUST II

Statement of Revenues and Expenditures

Year Ended December 31, 2018

	2018	2017
REVENUE	\$ 5,704	\$ 3,964
EXPENSES		
Audit fees	5,500	5,500
Bank charges and interest	200	200
GST/HST expense (Note 8)	1,108	1,277
Legal fees	286	190
Office	96	146
Travel	89	-
Trustee fees (Note 6)	16,506	11,318
	23,785	18,631
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (18,081)	\$ (14,667)

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

THE BC FORESTRY REVITALIZATION TRUST II

Statement of Changes in Net Assets

Year Ended December 31, 2018

	2018	2017
NET RESTRICTED ASSETS - BEGINNING OF YEAR	\$ 372,506	\$ 387,173
Excess (deficiency) of revenues over expenses	<u>(18,081)</u>	<u>(14,667)</u>
NET RESTRICTED ASSETS - END OF YEAR	<u>\$ 354,425</u>	<u>\$ 372,506</u>

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

THE BC FORESTRY REVITALIZATION TRUST II**Statement of Cash Flows****For the Year Ended December 31, 2018**

	2018	2017
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (18,081)	\$ (14,667)
Changes in non-cash working capital:		
Accounts payable and accruals	-	(2,725)
Due to related party	729	(1,730)
	729	(4,455)
Cash flow from operating activities	(17,352)	(19,122)
INVESTING ACTIVITY		
Proceeds on disposal (purchase) of investments	16,182	20,819
INCREASE (DECREASE) IN CASH FLOW	(1,170)	1,697
Cash - beginning of year	6,699	5,002
CASH - END OF YEAR	\$ 5,529	\$ 6,699

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

THE BC FORESTRY REVITALIZATION TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

1. PURPOSE OF THE TRUST

The BC Forestry Revitalization Trust II (the "Trust") was established by Declaration of Trust dated February 28, 2008.

On April 30, 2008, all assets and liabilities, contingent and otherwise, of the predecessor trust, the BC Forestry Revitalization Trust (the "Predecessor Trust") were transferred to the Trust.

The Predecessor Trust was established by Deed of Trust dated March 17, 2003 (the "First Trust Deed"). Pursuant to Bill 28-2003, the Forestry Revitalization Act, the Ministry of Forests of the Province of British Columbia made a payment of \$75,000,000 to settle the Predecessor Trust (the "First Payment"). On February 22, 2005, the Government of the Province of British Columbia passed legislation to make an additional contribution of \$50,000,000 to the Predecessor Trust (the "Second Payment"), to increase the funds available for distribution to \$125,000,000. A portion of \$40,000,000 of the second payment was received during a prior year. The remaining amount was held by the Government of the Province of British Columbia until such a time as the Predecessor Trust might require the funds.

The funds were to be used to mitigate adverse financial impacts suffered by certain forest workers and replaceable contractors as a result of restructuring of the forestry sector and harvesting operations within British Columbia, arising out of reductions under the Forestry Revitalization Act of harvesting rights available to licensees under the Forest Act.

As of December 31, 2011 all workers who were potential beneficiaries of the Trust had received the mitigation for which they were eligible based on the Employee Mitigation Guidelines, and all contractors that were potential beneficiaries of the Trust had received the mitigation for which they were eligible based on the Contractor Mitigation Guidelines. The original Mitigation Guidelines of the Trust were fulfilled without requiring a draw down of the previously withheld \$10,000,000, so those funds were not released to the Trust.

During the previous years, many of the contractors that were beneficiaries of the Contractor Mitigation Fund were assessed or reassessed by the Canada Revenue Agency (the "CRA") for income taxes on amounts received from the Trust. It was the contractors' contention that they had expected to receive those funds on an after-tax basis. However, the CRA maintained the position that all contractor mitigation funds were to be treated as income.

During a prior year, the Trustee, in consultation with the Advisory Board and the Minister of Forests, Lands and Natural Resource Operations (the "Minister") caused the Trust to transfer all remaining funds in the Administration Fund, the Contractor Mitigation Fund, and the Forest Worker Mitigation Fund into the newly formed 2011 Contractor Mitigation Fund. The purpose of this fund is to reimburse contractors that were assessed and paid income taxes related to the receipt of Contractor Mitigation Funds, or to pay directly to the CRA taxes that were assessed and were still outstanding. Contractors that were not assessed taxes in the year(s) they received contractor mitigation funds are not eligible beneficiaries of the 2011 Contractor Mitigation Account Subtrust.

During a prior year, the Minister made a commitment to fund any shortfall to enable the Trust to make appropriate disbursements to its beneficiaries (see note 2 and note 9).

2. BENEFICIARIES OF THE TRUST

The beneficiaries of the Trust are Eligible Contractors as defined in Paragraph 2.03 of the Declaration of Trust Setting Out the Terms and Conditions of the 2011 Contractor Mitigation Account Subtrust (the "Subtrust"), of the BC Forestry Revitalization Trust II, that are also Eligible Taxpayers as defined in paragraph 2.04 of the Subtrust.

THE BC FORESTRY REVITALIZATION TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

3. DURATION OF THE TRUST

The Trust will terminate on any date on which there is no remaining Trust property.

4. 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 assets are subject to the external restrictions contained in the Declaration of Trust (the "Declaration") and are to be used only for the specified purposes. The restrictions stipulate that the resources be maintained in the Trust until required for qualifying disbursements to the Trust's beneficiaries and payments for administrative expenses of the Trust. Qualifying disbursements to the Trust's beneficiaries include and are limited to the reimbursement of taxes paid or payable by contractors that were assessed taxes related to the receipt of Contractor Mitigation Funds (see Note 1). At the end of the year, only one restricted fund remained, the 2011 Contractor Mitigation Fund. All revenues and receipts and all permitted expenditures and disbursements will be recorded in this fund.

(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.

All income earned in respect of funds held in a mitigation fund shall be income of that mitigation fund and form part of the capital of that fund.

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

(c) Cash

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

(d) Investments

Investments consist of Canadian provincial government bonds. Investments are carried at amortized cost, less any impairment.

(e) Use of Assumptions and Estimates

The preparation of financial statements requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those 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.

(continues)

THE BC FORESTRY REVITALIZATION TRUST II

Notes to Financial Statements Year Ended December 31, 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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 values of financial assets and liabilities reflected in the statement of financial position approximate their respective fair values.

5. INVESTMENTS

	2018	2017
Fixed income investments at cost		
Canadian provincial government bonds	\$ 355,526	\$ 371,708
Market value	\$ 355,086	\$ 371,303

6. RELATED PARTY TRANSACTIONS

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

	2018	2017
Trustee Fees	\$ 16,506	\$ 11,318
Balance due to Trustee	\$ 853	\$ 126

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

7. INCOME TAXES

The Trustee has always been of the opinion that the Trust is either a non-profit organization for income tax purposes or a public body performing a function of government. Under either definition, the Trust's income would not be subject to income taxes.

During a prior year, the Trustee received a Notice of Assessment whereby the Trust was assessed income taxes of \$8,051 on its net income for the year ended December 31, 2012. A Notice of Objection was duly filed in a timely manner. Subsequently, an appeals officer was appointed to review the facts and make a determination.

Pursuant to the submission of the additional information and discussions with the appeals officer, the CRA allowed the Notice of Objection on the basis that the Trust is a quasi-governmental body earning exempt income and therefore not subject to income taxes.

THE BC FORESTRY REVITALIZATION TRUST II

Notes to Financial Statements

Year Ended December 31, 2018

8. GOODS AND SERVICE TAXES/HARMONIZED SALES TAX

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

9. SUFFICIENCY AND COMMITMENT OF FUNDS

During a prior year, the Trustee and Advisory Board developed Forest Worker Mitigation Guidelines and Contractor Mitigation Guidelines. The Trust was able to fulfill its obligations under the Forest Worker and Contractor Mitigation Guidelines.

During a prior year, pursuant to a recommendation of the Advisory Board and an offer of additional funds for the Trust from the Minister of Forests, Lands and Natural Resource Operations, the Trustee transferred all remaining funds in the Administration Fund, the Contractor Mitigation Fund and the Forest Worker Mitigation Fund to the newly created 2011 Contractor Mitigation Fund of the Trust. The purpose of this Fund is to provide relief to contractors that were assessed and paid, or still owe income taxes on the contractor mitigation amounts previously received from the Trust. During the year ended December 31, 2018, the Trustee made disbursements of \$nil (2017 - \$nil) to beneficiaries. As at December 31, 2018, the remaining amount to accrue for the resulting contractor tax liability is indeterminable, as the assessment by the CRA is still in a preliminary stage.

The Trustee estimates that the distribution to the beneficiaries will be between \$1,000,000 and \$1,300,000. The Minister has committed to advance funds to the Trust to enable it to meet any shortfall.

10. 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 5. However, the Trust intends to hold all of its fixed income investments to maturity therefore the exposure to interest rate risk is mitigated.