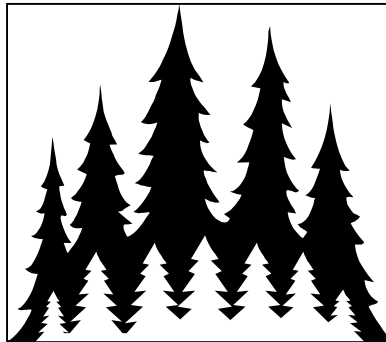


The BC Forestry Revitalization Trust II



**December 31, 2014
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 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, 2014 was as follows:

James Gorman, Board Member representing the Council of Forest Industries

Jim Girvan, Board Member representing the Truck Loggers Association

Monty Mearnes, Board Member representing the United Steelworkers of America – IWA Council

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

Tom Jensen, Board Member representing the Ministry of Forests, Lands and Natural Resource Operations

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

Rick Jeffrey, Board Member representing the Coast Forest Products Association

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 II. The position of the four logging contractor associations in BC is 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 as a result of the loss of some or all of a replaceable contract should be treated as a capital gain. The Canada Revenue Agency (CRA) 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 in the event that 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% are deemed to have accepted the payments as received and will not be 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.

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 is not responding to requests for information from the CRA and appears to be no longer pursuing his claim for a refund. In addition, 2 of the contractors that received determination letters dispute the amount of incremental tax the CRA has determined they should have paid as a result of mitigation amounts received from the BCFRT. The CRA is reviewing those files.

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 to deem 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.

Account Balances as at December 31, 2014

Account Balances

2011 Contractor Mitigation Account \$423,753

Total market value of BCFRT accounts \$423,753

Distributions to Beneficiaries to date

Contractor Mitigation \$70,748,591

Contractor Income Tax Refunds \$7,573,445

Forest Worker Mitigation \$43,079,279

Transferred to the Coast Sustainability Trust \$2,767,714

Total Distributions to Beneficiaries \$124,169,029

Total available funds plus distributions \$124,592,782

A breakdown of the activity in the 2011 Contractor Tax Mitigation account to December 31, 2014 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
137	contractors will receive tax refunds
129	contractors will not receive tax refunds
1	contractor refund request not yet reviewed by CRA
131	Tax refund payments were made to December 31, 2014

Tax refunds paid to December 31, 2014 \$7,573,445

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 at this time is between \$8.7 and \$9.0 million. The agreement with the province is that all existing funds in the BCFRT accounts will be first applied to compensate the contractors for taxes paid or payable. Once the BCFRT funds are depleted, the province will replenish the BCFRT 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 \$750,000 to the BCFRT. The best estimate at December 31, 2014 is that the province will be asked to provide a further \$0.835 to \$1.265 Million to the BCFRT to allow it to meet this obligation.

THE BC FORESTRY REVITALIZATION TRUST II
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2014

THE BC FORESTRY REVITALIZATION TRUST II
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Statement of Operations	Exhibit D
Statement of Cash Flows	Exhibit E
Notes to Financial Statements	Exhibit F

To the Trustee
The BC Forestry Revitalization Trust II

INDEPENDENT AUDITORS' REPORT

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, 2014, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustee's Responsibility for the Financial Statements

The Trustee is responsible for the preparation of these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 of 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 auditors' 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 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 the Trustee, as well as evaluating the 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.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements of The BC Forestry Revitalization Trust II for the year ended December 31, 2014, present fairly, in all material respects, the financial position of The BC Forestry Revitalization Trust II as at December 31, 2014 and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

We draw attention to Note 12 to the Financial Statements which describes the uncertainty related to the outcome of the lawsuit filed against the Trustee. Our opinion is not qualified in respect of this matter.

MNP LLP

MNP LLP

Chartered Accountants

Vancouver, B.C.
February 25, 2015

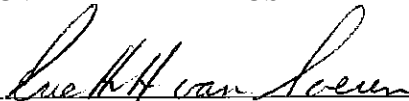
THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 9,429	\$ 692
Investments - note 4(e)	420,645	99,958
Payment recoverable	<u>6,000</u>	<u>6,000</u>
TOTAL ASSETS	<u>\$ 436,074</u>	<u>\$ 106,650</u>
<u>LIABILITIES</u>		
CURRENT LIABILITY		
Accounts payable and accrued liabilities	<u>\$ 23,961</u>	<u>\$ 27,323</u>
TOTAL LIABILITIES	<u>23,961</u>	<u>27,323</u>
<u>FUND BALANCES</u>		
TOTAL RESTRICTED NET ASSETS - note 5	<u>412,113</u>	<u>79,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 436,074</u>	<u>\$ 106,650</u>

Commitments - note 10

Existence of legal action - note 12

APPROVED BY THE TRUSTEE

 Trustee

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>	<u>2013</u>
NET RESTRICTED ASSETS , beginning of year	\$ 79,327	\$ 7,681,990
Grant from Government of BC	750,000	-
Excess of (deficiency of) revenue over expenses	<u>(417,214)</u>	<u>(7,602,663)</u>
NET RESTRICTED ASSETS , end of year	<u>\$ 412,113</u>	<u>\$ 79,327</u>

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>	<u>2013</u>
INTEREST REVENUE - note 4(b)	<u>\$ 5,593</u>	<u>\$ 42,467</u>
EXPENSES		
Audit fees	8,000	19,010
Bank charges and interest	215	1,580
Disbursements to beneficiaries	173,098	7,394,347
GST/HST expense - note 8	11,348	17,878
Legal fees	163,748	79,011
Office	160	747
Travel and entertainment	953	439
Trustee fees - note 6	<u>65,285</u>	<u>132,118</u>
	<u>422,807</u>	<u>7,645,130</u>
EXCESS OF (DEFICIENCY OF) REVENUE OVER EXPENSES	<u>\$ (417,214)</u>	<u>\$ (7,602,663)</u>

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Excess of (deficiency of) revenue over expenses	\$ (417,214)	\$ (7,602,663)
Changes in non-cash working capital balances		
Disbursement recoverable	-	(6,000)
Accounts payable and accrued liabilities	<u>(3,362)</u>	<u>12,578</u>
Cash used in operations	(420,576)	(7,596,085)
FINANCING ACTIVITIES		
Grant from the Government of B.C.	<u>750,000</u>	<u>-</u>
INVESTING ACTIVITIES		
Aquisition of investments	<u>(320,687)</u>	<u>7,574,486</u>
CHANGE IN CASH DURING THE YEAR	8,737	(21,599)
CASH, beginning of year	<u>692</u>	<u>22,291</u>
CASH, end of year	<u><u>\$ 9,429</u></u>	<u><u>\$ 692</u></u>

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 required 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 are still outstanding. Contractors that did not pay 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 11).

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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.

3. DURATION OF THE TRUST

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

4. 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. As at the end of the prior 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.

This fund is to be used to provide mitigation to certain replaceable contractors that previously received contractor mitigation from the Trust or the Predecessor Trust and were assessed and paid income taxes or were assessed and have not yet paid income taxes in the tax year(s) in which they received the contractor mitigation.

(b) Revenue Recognition and Allocation

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) Measurement Uncertainty

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.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

4. **SIGNIFICANT ACCOUNTING POLICIES, *cont'd***

(d) Financial Instruments

The Trust invests in certain financial instruments. It 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 subsequently measures cash at fair value. All other financial assets and liabilities are subsequently measured at amortized cost.

It is the Trustee'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.

(e) Investments

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

(f) Canadian Accounting Standards for Not-for-Profit Organizations

The Trustee has elected to prepare the financial statements of the Trust in accordance with Canadian generally accepted accounting principles using Canadian Accounting Standards for Not-for-Profit Organizations.

5. **EXTERNALLY RESTRICTED NET ASSETS**

Net assets consist of \$412,513 (2013 – \$79,327) in contributions, including investment income earned on those contributions, that are subject to externally imposed restrictions. The restrictions stipulate that the resources be maintained in the Trust until required for qualifying disbursements to the Trust's beneficiaries. Qualifying disbursements to the Trusts 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).

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

6. RELATED PARTY TRANSACTIONS

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

	<u>2014</u>	<u>2013</u>
Payments to Trustee	<u>\$ 65,285</u>	<u>\$ 132,118</u>

BALANCE DUE TO TRUSTEE

Due to trustee amount is unsecured, non-interest bearing and due on demand.

	<u>2014</u>	<u>2013</u>
Balance due to Trustee included in accounts payable and accrued liabilities	<u>\$ 6,321</u>	<u>\$ 3,515</u>

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

Pursuant to the submission of 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.

8. GOODS AND SERVICES TAXES / HARMONIZED SALES TAXES

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

9. FAIR VALUE AND CREDIT RISK

The carrying value of investments and liabilities reflected in the statement of financial position approximate their respective fair values. The Trust does not have a significant concentration of credit risk. The market value of the investments as at December 31, 2014 was \$423,538.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

10. COMMITMENTS

In accordance with the Declaration, all funds must be disbursed to beneficiaries pursuant to the purpose of the Trust and the guidelines prepared by the Trustee and approved by the Advisory Board. No amounts may be transferred to the Government of the Province of British Columbia.

11. SUFFICIENCY 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, the Trustee made disbursements of \$173,098 to beneficiaries. The Trustee expects further distributions of approximately \$1.1 million to \$1.4 million. The Minister has committed to advance funds to the Trust to enable it to meet any shortfall.

12. EXISTENCE OF LEGAL ACTION

During the prior year, a plaintiff, Hayes Forest Services Limited, served Mr. Eric van Soeren with a Notice of Civil Claim in his capacity as sole holder of the office of Trustee of the BC Forestry Revitalization Trust. The plaintiff is claiming between \$1.6 million to \$2.2 million in damages. The Trustee and his legal advisors are defending the claim.

Although the outcome of the legal action is uncertain, the Trustee is of the opinion that the claim will not be successful.

13. ECONOMIC DEPENDENCE

The Trust's operations and ability to fund payments to the beneficiaries is dependent on contributions from its sole contributor, the Province of British Columbia. As at year end, further funding was required which the Province of British Columbia had committed to providing to the Trust.