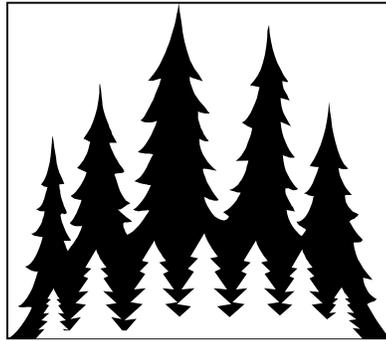


The BC Forestry Revitalization Trust II



**December 31, 2016
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, 2016 was as follows:

James Gorman, Board Member representing the Council of Forest Industries

Jim Girvan, Board Member representing the Truck Loggers Association

Rick Neuwirth, representing the United Steelworkers of America – IWA Council

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

Tim Sheldan, 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 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 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 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.

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 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, 2016

Account Balances	
2011 Contractor Mitigation Account	\$387,168
Total value of BCFRT accounts	\$387,168
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	\$124,646,374

A breakdown of the activity in the 2011 Contractor Tax Mitigation account to December 31, 2016 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
- 137 contractors will receive tax refunds
- 130 contractors will not receive tax refunds
- 134 Tax refund payments were made to December 31, 2016

Tax refunds paid to December 31, 2016 \$7,653,585

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 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 BC Forestry Revitalization Trust II
Financial Statements
December 31, 2016

The BC Forestry Revitalization Trust II

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For the year ended December 31, 2016

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Independent Auditors' 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, 2016, and the statements of operations, 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.

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 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 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 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.

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, 2016 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Richmond, British Columbia

February 28, 2017

MNP LLP

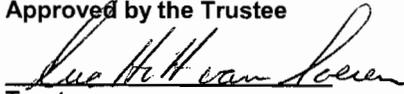
Chartered Professional Accountants

The BC Forestry Revitalization Trust II
Statement of Financial Position

As at December 31, 2016

	2016	2015
Assets		
Current		
Cash	5,002	7,817
Investments - current portion (Note 5)	2,292	116,043
	7,294	123,860
Investments (Note 5)	390,235	-
	397,529	123,860
Liabilities		
Current		
Accounts payable and accruals	8,505	16,682
Due to related party (Note 6)	1,856	693
	10,361	17,375
Net Assets		
Restricted	387,168	106,485
	397,529	123,860

Approved by the Trustee


 Trustee

The BC Forestry Revitalization Trust II Statement of Operations

For the year ended December 31, 2016

	2011 <i>Contractor Mitigation Fund</i>	2016	2015
Revenue			
Grant revenue	750,000	750,000	-
Interest income	3,030	3,030	3,270
	753,030	753,030	3,270
Expenses			
Audit Fees	8,075	8,075	13,705
Bank charges and interest	230	230	200
Disbursements to beneficiaries <i>(Note 9)</i>	58,052	58,052	22,088
GST/HST expense <i>(Note 8)</i>	19,087	19,087	12,867
Legal fees	323,145	323,145	207,830
Office	122	122	166
Travel	716	716	502
Trustee fees <i>(Note 6)</i>	62,920	62,920	45,540
Unrecoverable disbursement	-	-	6,000
	472,347	472,347	308,898
Excess (deficiency) of revenue over expenses	280,683	280,683	(305,628)

The accompanying notes are an integral part of these financial statements

The BC Forestry Revitalization Trust II Statement of Changes in Net Assets

For the year ended December 31, 2016

	<i>2011 Contractor Mitigation Fund</i>	<i>2016</i>	<i>2015</i>
Net restricted assets, beginning of year	106,485	106,485	412,113
Excess (deficiency) of revenue over expenses	280,683	280,683	(305,628)
Net restricted assets, end of year	387,168	387,168	106,485

The accompanying notes are an integral part of these financial statements

The BC Forestry Revitalization Trust II

Statement of Cash Flows

For the year ended December 31, 2016

	2016	2015
Cash provided by (used for) the following activities		
Operating		
Excess (deficiency) of revenue over expenses	280,683	(305,628)
Changes in working capital accounts		
Accounts receivable	-	6,000
Accounts payable and accruals	(8,177)	(958)
Due to related party	1,163	(5,628)
	273,669	(306,214)
Investing		
Purchase of investments	(276,484)	-
Proceeds on disposal of investments	-	304,602
	(276,484)	304,602
Decrease in cash resources	(2,815)	(1,612)
Cash resources, beginning of year	7,817	9,429
Cash resources, end of year	5,002	7,817

The accompanying notes are an integral part of these financial statements

The BC Forestry Revitalization Trust II

Notes to the Financial Statements

For the year ended December 31, 2016

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 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.

3. DURATION OF THE TRUST

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

The BC Forestry Revitalization Trust II

Notes to the Financial Statements

For the year ended December 31, 2016

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.

(d) Investments

Investments consist of Canadian provincial government bonds, GIC's and public company 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.

(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 subsequently 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 BC Forestry Revitalization Trust II
Notes to the Financial Statements
For the year ended December 31, 2016

5. INVESTMENTS

	2016	2015
	<i>Carrying amount</i>	<i>Carrying amount</i>
Fixed income investments		
Canadian provincial government bonds	392,527	116,043
Less: current portion	(2,292)	(116,043)
Non-current portion	390,235	-

6. RELATED PARTY TRANSACTIONS

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

	2016	2015
Trustee fees	62,920	45,540
Balance due to Trustee		
Amount due to Trustee is unsecured, non-interest bearing and due on demand.	1,856	693

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the 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 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 SERVICE 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.

The BC Forestry Revitalization Trust II

Notes to the Financial Statements

For the year ended December 31, 2016

9. 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 \$58,052 to beneficiaries. As at December 31, 2016, 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 Minister has committed to advance funds to the Trust to enable it to meet any shortfall.

10. ECONOMIC DEPENDENCE

The Trust's primary source of revenue is provided by the Government of the Province of British Columbia. The grant funding can be cancelled if the Trust does not observe certain established guidelines. The Trust's ability to continue viable operations is dependent upon maintaining its right to follow the criteria within the guidelines. As at the date of these financial statements the Trust believes that it is in compliance with the guidelines.

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.

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.