

GWAI FOREST CHARITABLE TRUST
Financial Statements
As at December 31, 2008

McAlpine
& Co. ^{CA}

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Trustees of Gwaii Forest Charitable Trust

We have audited the statement of financial position of Gwaii Forest Charitable Trust as at December 31, 2008 and the statements of revenues and expenditures, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Charitable Trust's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Charitable Trust as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Terrace, B.C.
January 31, 2009 (except as to Note 9 which is as of April 20, 2009)


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST
Statement of Financial Position
As at December 31, 2008

	2008	2007
Assets		
Current		
Cash	\$ 10,986	\$ 50,241
Investment income receivable	54,479	63,242
Loans receivable (Note 9)	190,000	
	255,465	113,483
Long term investments (Notes 2, 3)	22,833,202	25,086,234
	\$ 23,088,667	\$ 25,199,717
Liabilities		
Current		
Accounts payable	\$ 36,000	\$ 40,719
Due to Gwaii Trust Society	246,771	68,694
Funding commitment - Gwaii Forest Society (Note 9)	190,000	
	472,771	109,413
Long term debt (Note 4)	800,000	
	1,272,771	109,413
Net Assets		
Grant fund (Note 6)	24,725,184	24,432,000
Unrestricted	(2,909,288)	658,304
	21,815,896	25,090,304
	\$ 23,088,667	\$ 25,199,717

On behalf of the Board


 _____ Trustee

 _____ Trustee


 _____ Trustee

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Year Ended December 31, 2008

	2008	2007 <i>(April 1 - December 31)</i>
Income		
Investment income <i>(Note 5)</i>	\$ 1,155,447	\$ 2,101,639
Investment management expenses		
Actuary	37,213	2,432
Custodial fees	26,255	14,539
Investment management	90,594	60,449
	154,062	77,420
Net investment earnings	1,001,385	2,024,219
Expenses		
Accounting and audit fees	11,099	8,313
Advertising and promotion	687	
Bank charges	213	28
Communication	680	
Legal fees	28,714	2,500
Office and miscellaneous	4,526	
Travel	3,854	
Trust protector fees	39,485	35,721
	89,258	46,562
Excess of income over expenses from operations	912,127	1,977,657
Grant inflation protection <i>(Note 6)</i>	293,184	432,000
Surplus available for Gwaii Forest Society activities	618,943	1,545,657
Transfers to Gwaii Forest Society <i>(Note 10)</i>	900,000	100,000
Net surplus (deficit) for the period	(281,057)	1,445,657
Unrealized gains (losses) on long term investments	(3,286,535)	(787,353)
Comprehensive surplus (deficit) for the period	\$ (3,567,592)	\$ 658,304

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2008

	Unrestricted	Grant Fund	2008	2007
Balance - beginning of year	\$ 658,304	\$ 24,432,000	\$ 25,090,304	\$ -
Initial fund investment - as previously stated	-	-	-	25,461,418
Prior period adjustment - <i>Note 7</i>	-	-	-	(1,461,418)
As restated	-	-	-	24,000,000
Comprehensive surplus (deficit) - as previously stated	-	-	-	(829,420)
Prior period adjustment - <i>Note 7</i>	-	-	-	1,487,724
Comprehensive surplus (deficit) - as restated	(3,567,592)	-	(3,567,592)	658,304
Grant inflation protection - as previously stated	-	-	-	458,306
Prior period adjustment - <i>Note 7</i>	-	-	-	(26,306)
Grant inflation protection - as restated	-	293,184	293,184	432,000
Balance - end of year	\$ (2,909,288)	\$ 24,725,184	\$ 21,815,896	\$ 25,090,304

See notes to financial statements

GWAII FOREST CHARITABLE TRUST**Statement of Cash Flow****Year Ended December 31, 2008**

	2008	2007
Operating activities		
Net income (loss)	\$ (3,567,592)	\$ 658,304
Item not affecting cash:		
Grant inflation protection	293,184	432,000
	(3,274,408)	1,090,304
Changes in non-cash working capital:		
Investment income receivable	8,763	(63,242)
Accounts payable	(4,719)	40,719
Due to Gwaii Trust Society	178,077	68,694
Funding commitment - Gwaii Forest Society	190,000	-
Loans receivable	(190,000)	-
	182,121	46,171
Cash flow from (used by) operating activities	(3,092,287)	1,136,475
Investing activities		
Net change in investments	2,153,032	(25,086,234)
Withdrawal of funds from Trust investment account	100,000	
Cash flow from (used by) investing activities	2,253,032	(25,086,234)
Financing activities		
Proceeds from long term financing	800,000	
Grant endowment		24,000,000
Cash flow from financing activities	800,000	24,000,000
Increase (decrease) in cash	(39,255)	50,241
Cash - beginning of year	50,241	
Cash - end of year	\$ 10,986	\$ 50,241

See notes to financial statements

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2008

1. Purpose of the organization

The Gwaii Forest Charitable Trust was settled on March 29, 2007 under the terms of the Deed of Trust. The Trust was established to provide a vehicle for the repatriation of the funds contributed under the South Moresby Agreement by the Province of British Columbia and the Government of Canada to Haida Gwaii. The funds endowed by the Federal and Provincial governments are for the purpose of increasing the sustainable forest management on Haida Gwaii and to increase community stability through enhancing the forest related economy of Haida Gwaii.

The Charitable Trust is a non-profit organization under the Income Tax Act and accordingly is exempt from income taxes.

2. Summary of significant accounting policies

Basis of accounting

The Gwaii Forest Charitable Trust follows the deferral method of accounting for contributions. The financial statements have been prepared in accordance with the recommendations for not-for-profit organizations found in Section 4400 of the CICA handbook.

Revenue recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Investments

Marketable securities are classified as held for trading and carried at market value in accordance with Section 3855 of the CICA handbook.

3. Investments

	2008		2007	
	Cost	Market	Cost	Market
Cash	\$ 29,072	\$ 29,072	\$ 23,056	\$ 23,056
Treasury bills and short term investments	398,067	398,067	174,611	174,611
Federal and Provincial Government bonds	7,486,065	7,528,345	7,837,302	7,942,388
Corporate bonds	5,975,100	5,827,332	6,366,984	6,319,756
Mortgages	1,877,293	1,878,865	1,665,257	1,668,484
Equities	4,306,598	2,991,301	3,411,234	3,169,970
International equities	6,834,895	4,180,220	6,395,144	5,787,970
	\$ 26,907,090	\$ 22,833,202	\$ 25,873,588	\$ 25,086,235

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2008

4. Long term debt

	2008	2007
Gwaii Trust Society unsecured, non-interest bearing note. The note is to be repaid periodically with 20% of surplus earnings of the Gwaii Forest Charitable Trust as determined by the trustees.	\$ 800,000	\$

During the period the Gwaii Trust Society agreed to advance the Gwaii Forest Charitable Trust funds to facilitate the commencement of operations and projects of the Gwaii Forest Society. The funds to be advanced have a maximum limit of \$800,000. Of this total \$800,000 has been advanced to December 31, 2008. As described in Note 9 below, the remaining \$190,000 was advanced on April 3, 2009 and has been included in the loan balance.

5. Investment income

	2008	2007
Interest income	\$ 726,727	\$ 1,923,425
Dividend income	143,674	75,238
Other investment income	439,751	119,277
Realized gain (loss) on sale of investments	(154,705)	(16,301)
	\$ 1,155,447	\$ 2,101,639

6. Restricted net assets

The Gwaii Trust Charitable Trust Investment Fund represents the initial endowment of \$24,000,000 received from the Governments of Canada and British Columbia. The Fund is adjusted annually by the inflation rate for the year to protect the value of the original grant for future generations. The fund has been established as a perpetual investment fund and, as such, the original endowment with the accumulated inflation adjustments can never be touched, allocated or expended.

The annual inflation adjustment is based on the Canadian Consumer Price Index (CPI). The change for the year ended December 31, 2008 has been calculated at the published CPI index of 1.2% for the previous twelve month period.

7. Financial instruments

The Charitable Trust's financial instruments consist of cash and cash equivalents, accounts receivable, investments in marketable securities accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Charitable Trust is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2008

8. Prior period adjustment

During the prior year the entire amount of \$25,461,418 received from the Governments of Canada and British Columbia upon the settlement of the Gwaii Forest Charitable Trust was record as the core grant of the Trust. In actuality, these funds represented the core grant of \$24,000,000 plus interest earned on these funds of \$1,461,418. The accounting records of the prior year have been adjusted to reflect these amounts.

The amount of \$1,461,418 has been included in the investment income for the year ended December 31, 2007 and the inflation adjustment referred to in Note 5 above has been amended to reflect the actual core grant of \$24,000,000.

	2007	
Grant income earned prior to transfer	\$ 1,461,418	
Reduction in grant inflation protection amount		26,306
Net change in prior year unrestricted surplus	\$ 1,487,724	

9. Subsequent events

The following events occurred subsequent to the fiscal year end:

Transfers to Gwaii Forest Society

On April 3, 2009, the Gwaii Forest Charitable Trust paid the final \$190,000 of a funding agreement with the Gwaii Forest Society which had been approved during 2008. As described in Note 4 above, this payment was funded with the final proceeds of the loan arrangement with the Gwaii Trust Society and no funds were withdrawn from the capital of the Gwaii Forest Charitable Trust.

The net effect of this transaction is an increase in the deficit for the year of \$190,000 with a corresponding increase in the loan payable described in Note 4.

10. Transfers to Gwaii Forest Society

The amount transferred to the Gwaii Forest Society during the year for administration and program funding included the following:

	2008	2007
Payment for Gwaii Forest Society fiscal year ended March 31, 2008 - funded by advances from Gwaii Trust Society	\$ 100,000	\$
Payment for Gwaii Forest Society fiscal year ended March 31, 2009 - funded by loan from Gwaii Trust Society	800,000	
Direct payments to Gwaii Forest Society		100,000
	\$ 900,000	\$ 100,000