

GWAII FOREST CHARITABLE TRUST

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OPERATIONS REPORT

- Fiscal Year 2007 -

PROCESS & PROCEDURES

1

The following is a summary and explanation of the procedures used by the trustees of the Gwaii Forest Charitable Trust (“GFCT”) in the review, evaluation & approval of eligible projects to December 31, 2007.

In accordance with its obligations as agent of the GFCT, the Gwaii Forest Society (“GFS”) prepared the standards and objectives for eligible projects which have been approved by the trustees and form the basis of the Guide to Program and Application Process (Appendix 1). The Call for Proposals for Eligible Projects was opened in the Sustainable Forest Management program area of GFCT’s purposes in September 2007. Applications were not invited in the Community Stability program area, which is presently under development.

The GFS’s eight-member Board of Directors (the “GFS Board”) is responsible for the overall policies and practices of the GFS in its capacity as agent for GFCT. Such policies and practices are subject to approval by the trustees of the GFCT to the extent that they affect the GFS activities as agent of the GFCT. In considering applications with respect to Eligible Projects, the GFS Board relies on an administrative review by the GFS’s Executive Director who ensures the projects proposed to the GFS are “eligible”. Such projects found to be eligible are then forwarded for review to the Technical Advisory Committee of community volunteers experienced in education and forest management presently serving in the Sustainable Forest Management program area. The GFS Board then reviews the proposed Eligible Projects, taking into consideration the recommendations from the GFS Executive Director and the Technical Advisory Committee and, if required, professional advisors.

This three-stage review began after the close of the Call for Proposals in October 2007. The GFS Executive Director determined that one proposal was not an Eligible Project and another proposal failed to meet basic application requirements including the standards and objectives approved by the trustees. A total of 19 proposals were forwarded for review and comment to the Technical Advisory Committee. The Committee’s recommendations were then forwarded to the GFS Board.

The GFS Board will meet in January 2008 to review the proposed 19 Eligible Projects. A summary of such projects, with an explanation of how they qualify to be “Eligible Projects”, and associated budgets will be forwarded to the trustees of the GFCT for consideration and approval.

It is understood that each proponent of an Eligible Project that is approved for funding by the GFCT trustees will execute a service agreement with the GFS, as agent for the GFCT, prior to April 1, 2008. Such service agreement will provide details outlining financial and performance measures and expectations, timetable for advances and disbursements as well as measures taken for non-compliance, including at least a 20% hold-back.

GFCT INVESTMENT STRATEGY

The following is a summary and explanation of the investment strategy of the Trust in 2007 and any material changes in the investment of the Trust property.

The Gwaii Forest Charitable Trust Investment Strategy is based upon a premise of only investing with organizations that provide sufficient security and have a proven record of socially responsible investments. The GFCT employs the same actuaries, investment managers and custodian as the Gwaii Trust Society (“GTS”) to hold, manage and invest the assets of the GFCT.

The GTS developed “Investment Policies and Procedures” in consultation with Watson Wyatt Canada, its actuarial professional advisor. Since 1996, this strategy has proven successful by providing the GTS with income considered as very acceptable by GTS’s professional advisors during a volatile period in the financial markets.

Watson Wyatt Canada was hired in the spring of 1996 to assist in hiring an appropriate investment manager and to assist the GTS in evaluating the performance of the investment manager on an on-going basis. Watson Wyatt Canada also provides investment education to the GTS through seminars on an annual basis.

In July 1996, the GTS Board appointed the firm Phillips, Hager, & North Investment Management Limited of Vancouver, British Columbia, as the Investment Manager for the GTS Canadian equity and bond portfolio. In February 2006, the GTS Board appointed the firm Franklin Templeton Institutional of Calgary, Alberta, as the investment manager for the GTS International and United States equity portfolio. The term of the appointments of the investment managers is for five (5) years each, subject to annual reviews by the GTS Board.

In accordance with the Constitution of the GTS, the GTS is required to hire a custodian to provide professional custodial services to GTS. Royal Trust has been retained by the GTS as custodian for GTS’s portfolios. The custodian undertakes the transactions for Phillips, Hager & North Investment Management Limited and Franklin Templeton Institutional at their instructions. Watson Wyatt of Canada serves as a safeguard for the GTS by monitoring the investments made by the investment managers to ensure that GTS funds are invested in accordance with the GTS’s Investment Policies and Procedures.

Since the transfer of the \$25.46-million from SMFRA to GFCT, the trust assets of GFCT have been handled in the same manner as the GTS assets by the same professionals but in separate accounts from those maintained for GTS.

GFCT TRUSTEES & GFS CONSULTATION

The following is a summary and explanation of the results of consultation between the GFCT trustees & representatives of the GFS Board in 2007 with respect to the development of plans for the use of income from the GFCT trust assets.

The people of the Haida Gwaii/Queen Charlotte Islands (the “Islands”) commenced action to obtain control of the SMFRA funds as early as the 1990s and the GTS Board was active in pursuing that cause down to March 29, 2007, when the SMFRA funds were finally transferred to the GFCT. The GFCT was the entity which the Governments of Canada and British Columbia required to be the recipient of the SMFRA funds.

However, for some years before 2007, planners on the Islands had envisioned that a society separate from GTS, with particular forest expertise, would play an influential part in developing the thinking over time that would be applied to the use of the SMFRA funds. It was always agreed by the Islands communities that the SMFRA funds would be held, like the funds of GTS, as a perpetual heritage fund that would employ its income for purposes essentially analogous to those of SMFRA.

When the donating governments mandated that the SMFRA funds be held in trust by GFCT, the people of the Islands easily adapted their thinking in respect of GFS as the specialized forest society to the new trust structure by determining that GFS would act as GFCT’s agent in carrying out the purposes of GFCT.

GFCT has authorized GFS to act as its agent in carrying out the actions described above in this report and GFCT and GFS will execute a formal agency agreement when GFCT legal counsel have completed dealing with Canadian Revenue Authority in respect of the status of GFCT.

The trustees of GFCT rely heavily upon the resources of GFS in developing appropriate plans for the use of the GFCT trust assets. At each stage, GFCT requests that its agent, GFS, develop strategies and documents to fulfill the requirements of its governing trust deed and to deal with the administrative steps necessary to advance the funding of Eligible Projects. Proposals developed by GFS are provided to the trustees who, in turn adopt such proposals, either as proposed or as amended by the trustees or the advice of GFCT professional advisors.

GFS has presented an operations budget to the trustees of GFCT, a copy of which is attached as Appendix 2. Such budget was approved by the trustees and has been funded from time to time as required. Such budget represents what the trustees have accepted to be a fair estimate of the cost of carrying out the administrative side of affecting the GFCT purposes based on information for previous years developed in respect of the administration of GTS.

The Islands consist of a small number of small communities and there is much formal and informal communication between the GTS Board members, the trustees of GFCT, the GFS Board members and the GFS Executive Director in which consultation is constant with a view to achieving the GFCT purposes.

APPENDIX 1: Program Guide
APPENDIX 2: Administration Budget