

GWAII FOREST CHARITABLE TRUST

Financial Statements

As at September 30, 2010

(Unaudited)

McAlpine
& Co. CA¹¹

CHARTERED ACCOUNTANTS

REVIEW ENGAGEMENT REPORT

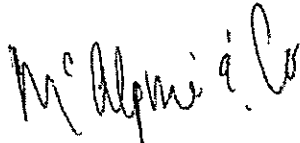
To the Trustees of the Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at September 30, 2010 and the statements of revenues and expenditures, changes in net assets and cash flow for the quarter then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Charitable Trust.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Terrace, British Columbia
October 25, 2010


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST

Statement of Financial Position


As at September 30, 2010

(Unaudited)

| | 2010 <i>Sept 30</i> | 2009 <i>December 31</i> |
|---|------------------------|----------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 107,878 | \$ 3,066 |
| Investment income receivable | 179,203 | 46,400 |
| Prepaid expenses | 1,474 | 564 |
| | 288,555 | 50,030 |
| Long term investments <i>(Notes 3, 4)</i> | 27,442,630 | 26,348,662 |
| | \$ 27,731,185 | \$ 26,398,692 |
| Liabilities | | |
| Current | | |
| Accounts payable | \$ 27,500 | \$ 25,000 |
| Due to Gwaii Trust Society | 132,367 | 384,732 |
| | 159,867 | 409,732 |
| Long term debt <i>(Note 5)</i> | 800,000 | 800,000 |
| | 959,867 | 1,209,732 |
| Net Assets | | |
| Grant fund <i>(Note 7)</i> | 25,363,782 | 25,046,611 |
| Unrestricted | 1,407,536 | 142,349 |
| | 26,771,318 | 25,188,960 |
| | \$ 27,731,185 | \$ 26,398,692 |

ON BEHALF OF THE BOARD

 _____ Trustee
_____ Trustee

 _____ Trustee

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Nine Month Period Ended September 30, 2010

(Unaudited)

| | 2010 <i>(9 months)</i> | 2009 <i>(12 months)</i> |
|---|---------------------------|----------------------------|
| Income | | |
| Investment income <i>(Note 6)</i> | \$ 1,520,581 | \$ 946,103 |
| Investment management expenses | | |
| Actuary | 5,019 | 24,000 |
| Custodial fees | 21,824 | 26,995 |
| Investment management | 72,157 | 84,038 |
| | 99,000 | 135,033 |
| Net investment earnings | 1,421,581 | 811,070 |
| Expenses | | |
| Accounting and audit fees | 7,031 | 10,605 |
| Administration fees | 43,009 | 55,409 |
| Bank charges | - | 26 |
| Communication | 134 | 448 |
| Insurance | 2,700 | 3,046 |
| Legal fees | 6,008 | 29,251 |
| Trust protector fees | 8,435 | 26,733 |
| | 67,317 | 125,518 |
| Excess of income over expenses from operations | 1,354,264 | 685,552 |
| Grant inflation protection | 317,171 | 321,427 |
| Surplus available for program funding | 1,037,093 | 364,125 |
| Program recoveries (funding) <i>(Note 9)</i> | (4,000) | 98,988 |
| Net surplus (deficit) for the period | 1,033,093 | 463,113 |
| Unrealized gains (losses) on long term investments | 232,094 | 2,588,524 |
| Comprehensive surplus (deficit) for the period | \$ 1,265,187 | \$ 3,051,637 |

GWAII FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Nine Month Period Ended September 30, 2010
(Unaudited)

| | Unrestricted | Grant Fund | 2010 | 2009 |
|--------------------------------------|---------------------|----------------------|----------------------|----------------------|
| Balance - beginning of period | \$ 142,349 | \$ 25,046,611 | \$ 25,188,960 | \$ 21,815,896 |
| Comprehensive surplus (deficit) | 1,265,187 | - | 1,265,187 | 3,051,637 |
| Grant inflation protection | - | 317,171 | 317,171 | 321,427 |
| Balance - end of period | \$ 1,407,536 | \$ 25,363,782 | \$ 26,771,318 | \$ 25,188,960 |

GWAII FOREST CHARITABLE TRUST
Statement of Cash Flow
Nine Month Period Ended September 30, 2010
(Unaudited)

| | 2010 <i>(9 months)</i> | 2009 <i>(12 months)</i> |
|---|---------------------------|----------------------------|
| Operating activities | | |
| Net income | \$ 1,265,187 | \$ 3,051,637 |
| Item not affecting cash: | | |
| Grant inflation protection | 317,171 | 321,427 |
| | 1,582,358 | 3,373,064 |
| Changes in non-cash working capital: | | |
| Investment income receivable | (132,803) | 8,079 |
| Accounts payable | 2,500 | (11,000) |
| Prepaid expenses | (910) | (564) |
| Loans receivable | - | 190,000 |
| Due to Gwaii Trust Society | (252,365) | 137,961 |
| Funding commitment - Gwaii Forest Society | - | (190,000) |
| | (383,578) | 134,476 |
| Cash flow from operating activities | 1,198,780 | 3,507,540 |
| Investing activity | | |
| Net change in investments | (1,093,968) | (3,515,460) |
| Increase (decrease) in cash | 104,812 | (7,920) |
| Cash - beginning of period | 3,066 | 10,986 |
| Cash - end of period | \$ 107,878 | \$ 3,066 |

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Nine Month Period Ended September 30, 2010

(Unaudited)

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. Future Operations

Under the terms of the Deed of Trust referred to in Note 1, the Gwaii Forest Charitable Trust is required to maintain, at a minimum, funds equal to the initial endowment of \$24,000,000 adjusted for inflation annually.

As at September 30, 2010, the market value of the investment portfolio of the Trust of \$27,442,630 had risen above the the inflation adjusted endowment value of \$25,363,782. While the Gwaii Forest Charitable Trust is currently not in breach of the terms of the Deed of Trust, the Trustees have suspended any further disbursements of Trust assets for program funding until such time as the market value of the Trust assets recovers to at least \$3,000,000 greater than the inflation adjusted endowment value. The Trust will continue to pay such expenses as are required to maintain the Trust and meet all regulatory requirements, either directly or as reimbursement of amounts expended on behalf of the Trust by the Trustees.

3. 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.

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Month Period Ended September 30, 2010

(Unaudited)

4. Investments

| | 2010 | | 2009 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Cost | Market | Cost | Market |
| Cash | \$ 4,951 | \$ 4,951 | \$ 47,906 | \$ 47,906 |
| Treasury bills and short term investments | 449,662 | 449,662 | 204,949 | 204,949 |
| Federal and Provincial Government bonds | 4,792,806 | 5,099,669 | 7,869,376 | 8,139,259 |
| Corporate bonds | 11,526,669 | 11,781,877 | 6,790,249 | 7,279,995 |
| Mortgages | 1,609,882 | 1,678,018 | 1,550,673 | 1,544,570 |
| Equities | 4,077,881 | 4,179,860 | 4,419,807 | 4,310,611 |
| International equities | 6,222,610 | 4,248,594 | 6,951,066 | 4,821,372 |
| | \$ 28,684,461 | \$ 27,442,631 | \$ 27,834,026 | \$ 26,348,662 |

5. Long term debt

| | 2010 | 2009 |
|--|------------|------------|
| 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 | \$ 800,000 |

During the prior 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 September 30, 2010.

6. Investment income

| | 2010 | 2009 |
|-------------------------------------|---------------------|-------------------|
| Interest income | \$ 669,970 | \$ 732,635 |
| Dividend income | 141,078 | 168,201 |
| Other investment income | - | 116,170 |
| Realized gain (loss) on investments | 709,533 | (70,903) |
| | \$ 1,520,581 | \$ 946,103 |

7. 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 period ended September 30, 2010 has been calculated monthly at the published CPI index and has averaged 1.7% for the nine month period.

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Month Period Ended September 30, 2010

(Unaudited)

8. Related party transaction

During the period, administration fees of \$14,337 per quarter for a total of \$43,011 were paid to the Gwaii Trust Society. These fees represent operating costs paid by the Gwaii Trust Society on behalf of the Gwaii Forest Charitable Trust.

| | 2010 | 2009 |
|---------------------------|------------------|------------------|
| Advertising and promotion | \$ 1,164 | \$ 1,500 |
| Bank charges | 438 | 563 |
| Board honoraria | 7,763 | 10,000 |
| Meetings | 1,863 | 2,400 |
| Office and postage | 1,863 | 2,400 |
| Rent and utilities | 2,674 | 3,445 |
| Office supplies | 776 | 1,000 |
| Telecommunications | 4,269 | 5,500 |
| Travel | 1,863 | 2,400 |
| Vehicle expense | 932 | 1,200 |
| Wages and benefits | 19,406 | 25,000 |
| | \$ 43,011 | \$ 55,408 |

9. Transfers to Gwaii Forest Society

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

| | 2010 | 2009 |
|--|-----------------|--------------------|
| Recovery of surplus funds from Gwaii Forest Society | \$ - | \$ (119,243) |
| Gwaii Forest Society administration expense paid by Gwaii Forest Charitable Trust | 4,000 | 12,743 |
| Gwaii Forest Society final program expense funded by advances from Gwaii Trust Society | - | 7,513 |
| | \$ 4,000 | \$ (98,987) |

10. Financial instruments

The Charitable Trust's'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.