

GWAII FOREST CHARITABLE TRUST
Financial Statements
As at December 31, 2010

McAlpine
& Co. CA[®]

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Trustees of Gwaii Forest Charitable Trust

We have audited the accompanying financial statements of Gwaii Forest Charitable Trust, which comprise the statement of financial position as at December 31, 2010, and the statements of revenues and expenditures, changes in net assets and cash flow 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 generally accepted accounting principles, 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.

Auditor's 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 auditor's 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 Gwaii Forest Charitable Trust as at December 31, 2010, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

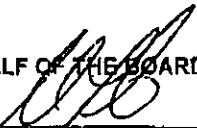

Terrace, British Columbia
February 11, 2011


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST
Statement of Financial Position
As at December 31, 2010

	2010	2009
Assets		
Current		
Cash	\$ 129,085	\$ 3,088
Investment income receivable	116,589	46,400
Prepaid expenses	564	564
	246,238	50,030
Long term investments (Notes 3, 4)	27,867,402	26,348,662
	\$ 28,113,640	\$ 26,398,692
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 61,537	\$ 25,000
Due to Gwaii Trust Society		384,732
Advances payable - Gwaii Trust Society (Note 5)	1,000,000	
	1,061,537	409,732
Long term debt (Note 6)		800,000
	1,061,537	1,209,732
Net Assets		
Grant fund (Note 8)	25,647,730	25,046,611
Unrestricted	1,404,373	142,349
	27,052,103	25,188,960
	\$ 28,113,640	\$ 26,398,692

ON BEHALF OF THE BOARD


 _____ Trustee

 _____ Trustee

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Year Ended December 31, 2010

	2010	2009
Income		
Investment income <i>(Note 7)</i>	\$ 1,935,371	\$ 946,103
Investment management expenses		
Actuary	16,222	24,000
Custodial fees	30,267	26,995
Investment management	98,399	84,038
	144,888	135,033
Net investment earnings	1,790,483	811,070
Expenses		
Accounting and audit fees	10,047	10,605
Administration fees <i>(Note 9)</i>	59,000	55,409
Bank charges		26
Communication	358	448
Insurance	3,610	3,046
Legal fees	6,008	29,251
Meetings and conventions	9,698	
Office and miscellaneous	54	
Trust protector fees	23,145	26,733
	111,920	125,518
Excess of income over expenses from operations	1,678,563	685,552
Grant inflation protection <i>(Note 8)</i>	601,119	321,427
Surplus available for program activities	1,077,444	364,125
Transfers to (recoveries from) Gwaii Forest Society for program activities <i>(Note 10)</i>	4,000	(98,988)
Net surplus for the period	1,073,444	463,113
Unrealized gains on long term investments	188,580	2,588,524
Comprehensive surplus for the year	\$ 1,262,024	\$ 3,051,637

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2010

	Unrestricted	Grant Fund	2010	2009
Balance - beginning of year	\$ 142,349	\$ 25,046,611	\$ 25,188,960	\$ 21,815,896
Comprehensive surplus for the year	1,262,024		1,262,024	3,051,637
Grant inflation protection		601,119	601,119	321,427
Balance - end of year	\$ 1,404,373	\$ 25,647,730	\$ 27,052,103	\$ 25,188,960

GWAII FOREST CHARITABLE TRUST**Statement of Cash Flow****Year Ended December 31, 2010**

	2010	2009
Operating activities		
Net income	\$ 1,262,024	\$ 3,051,637
Item not affecting cash:		
Grant inflation protection	601,119	321,427
	1,863,143	3,373,064
Changes in non-cash working capital:		
Investment income receivable	(70,189)	8,079
Accounts payable and accrued liabilities	36,537	(11,000)
Prepaid expenses		(564)
Loans receivable		190,000
Due to Gwaii Trust Society	(384,732)	137,961
Funding commitment - Gwaii Forest Society		(190,000)
Advances payable - Gwaii Trust Society	1,000,000	
	581,616	134,476
Cash flow from operating activities	2,444,759	3,507,540
Investing activity		
Net change in investments	(1,518,740)	(3,515,460)
Financing activity		
Repayment of long term debt	(800,000)	
Increase (decrease) in cash	126,019	(7,920)
Cash - beginning of year	3,066	10,986
Cash - end of year	\$ 129,085	\$ 3,066

See notes to financial statements

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2010

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. Going concern

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 December 31, 2010, the market value of the investment portfolio of the Trust of \$27,867,402 had risen above the the inflation adjusted endowment value of \$25,647,730. 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.

(continues)

GWAIL FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2010

3. Summary of significant accounting policies (continued)

Financial Instruments

The Charitable Trust has designated all non-derivative financial assets and liabilities as held for trading with the exception of certain obligations designated as other liabilities and receivables which are designated as held to maturity.

- The Charitable Trust initially records all non-derivative financial assets and liabilities at fair value.
- Assets and liabilities classified as held for trading are measured at fair value and changes in fair value are recognized in the statement of operations.
- Receivables are measured at amortized cost using the effective interest rate method.
- Other liabilities are recorded at amortized cost.
- All transaction costs incurred on receivables and other liabilities are incorporated in the fair value of the instrument and are amortized to operations using the effective interest rate method.

Assets and liabilities classified as available for sale are measured at fair value and changes in fair value are recorded in the statement of changes in net assets until the financial instruments are re-recognized or other than temporarily impaired at which time the amounts are recorded in the statement of operations. The Charitable Trust has not classified any assets or liabilities as available for sale.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

4. Investments

	2010		2009	
	Cost	Market	Cost	Market
Cash	\$ 34,287	\$ 34,286	\$ 47,906	\$ 47,906
Treasury bills and short term investments	49,872	49,872	204,949	204,949
Federal and Provincial Government bonds	4,639,715	4,863,563	7,869,376	8,139,259
Corporate bonds	12,169,451	12,238,281	6,790,249	7,279,995
Mortgages	1,637,721	1,672,215	1,550,673	1,544,570
Equities	4,301,613	4,602,166	4,419,807	4,310,611
International equities	6,331,528	4,407,019	6,951,066	4,821,372
	\$ 29,164,187	\$ 27,867,402	\$ 27,834,026	\$ 26,348,662

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2010

5. Due to Gwaii Trust Society

During the December, 2010, \$1,000,000 was to be withdrawn from the investment portfolio in order to repay the current accounts payable and long term loan payable to the Gwaii Trust Society. Due to a processing complication, the funds were withdrawn from the Gwaii Trust Society investment portfolio in error. The funds were subsequently withdrawn from the Gwaii Forest Charitable Trust investment portfolio in February, 2011 and repaid to the Gwaii Trust Society at that time.

6. 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

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. This amount was repaid in full during the 2010 fiscal year.

7. Investment income

	2010	2009
Interest income	\$ 990,109	\$ 732,635
Dividend income	183,547	168,201
Other investment income	108,918	116,170
Realized gain (loss) on investments	652,797	(70,903)
	\$ 1,935,371	\$ 946,103

8. 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, 2010 has been calculated at the published CPI index of 2.4% (2009 - 1.3%) for the previous twelve month period.

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2010

9. Related party transaction

During the year, administration fees of \$59,000 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	\$ 1,800	\$ 1,500
Bank charges	600	563
Board honoraria	10,350	10,000
Meetings	2,600	2,400
Office and postage	2,600	2,400
Rent and utilities	3,600	3,445
Office supplies	1,800	1,000
Telecommunications	5,650	5,500
Travel	2,500	2,400
Vehicle expense	1,500	1,200
Wages and benefits	26,000	25,000
	\$ 59,000	\$ 55,408

10. Transfers to Gwaii Forest Society

The amount paid on behalf of (recovered from) the Gwaii Forest Society during the year 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	4,000	12,743
Gwaii Forest Society final program expense		7,513
	\$ 4,000	\$ (98,987)

11. 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.