

**GWAII FOREST CHARITABLE TRUST**

**Financial Statements**

**As at September 30, 2011**

*(Unaudited)*

McAlpine  
& Co. CA<sup>11</sup>  

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CHARTERED ACCOUNTANTS

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## REVIEW ENGAGEMENT REPORT

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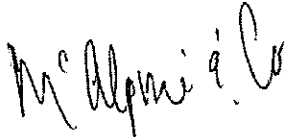
To the Trustees of the Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at September 30, 2011 and the statements of revenues and expenditures, changes in net assets and cash flow for the period 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 20, 2011

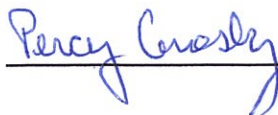
  
CHARTERED ACCOUNTANTS

**GWAII FOREST CHARITABLE TRUST**  
**Statement of Financial Position**  
**As at September 30, 2011**  
*(Unaudited)*

	2011 <i>September 30</i>	2010 <i>December 31</i>
<b>Assets</b>		
Current		
Cash	\$ 273,045	\$ 129,085
Investment income receivable	174,315	116,589
Prepaid expenses	1,474	564
	<b>448,834</b>	246,238
Long term investments <i>(Notes 3, 4)</i>	<b>27,259,695</b>	27,867,402
	<b>\$ 27,708,529</b>	\$ 28,113,640
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 46,502	\$ 61,536
Due to Gwaii Trust Society	66,707	
Advances payable - Gwaii Trust Society		1,000,000
	<b>113,209</b>	1,061,536
<b>Net Assets</b>		
Grant fund <i>(Note 6)</i>	<b>26,180,669</b>	25,647,730
Unrestricted	<b>1,414,651</b>	1,404,374
	<b>27,595,320</b>	27,052,104
	<b>\$ 27,708,529</b>	\$ 28,113,640

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, 2011**  
*(Unaudited)*

	2011 <i>(9 months)</i>	2010 <i>(12 months)</i>
<b>Income</b>		
Investment income <i>(Note 5)</i>	\$ 659,332	\$ 1,935,371
Investment management expenses		
Actuary	14,084	16,222
Custodial fees	31,287	30,267
Investment management	76,140	98,399
	<b>121,511</b>	<b>144,888</b>
Net investment earnings	<b>537,821</b>	<b>1,790,483</b>
<b>Expenses</b>		
Accounting and audit fees	6,278	10,047
Administration fees	45,375	59,000
Advertising and promotion	78	
Bank charges	16,486	
Communication	302	358
Insurance	2,700	3,610
Legal fees	4,446	6,008
Meetings and conventions	9,929	9,698
Office and miscellaneous		54
Trust protector fees	31,971	23,145
	<b>117,565</b>	<b>111,920</b>
<b>Excess of income over expenses from operations</b>	<b>420,256</b>	<b>1,678,563</b>
Grant inflation protection	<b>532,939</b>	<b>601,119</b>
Surplus (deficit)	<b>(112,683)</b>	<b>1,077,444</b>
Program recoveries (funding) <i>(Note 8)</i>		<b>(4,000)</b>
Net surplus (deficit) for the period	<b>(112,683)</b>	<b>1,073,444</b>
Unrealized gains (losses) on long term investments	<b>122,960</b>	<b>188,580</b>
<b>Comprehensive surplus (deficit) for the period</b>	<b>\$ 10,277</b>	<b>\$ 1,262,024</b>

**GWAII FOREST CHARITABLE TRUST**  
**Statement of Changes in Net Assets**  
**Nine Month Period Ended September 30, 2011**  
*(Unaudited)*

	Unrestricted	Grant Fund	2011	2010
<b>Balance - beginning of period</b>	\$ 1,404,374	\$ 25,647,730	\$ <b>27,052,104</b>	\$ 25,188,961
Comprehensive surplus (deficit)	10,277		<b>10,277</b>	1,262,024
Grant inflation protection		532,939	<b>532,939</b>	601,119
<b>Balance - end of period</b>	\$ 1,414,651	\$ 26,180,669	\$ <b>27,595,320</b>	\$ 27,052,104

**GWAIL FOREST CHARITABLE TRUST**  
**Statement of Cash Flow**  
**Nine Month Period Ended September 30, 2011**  
*(Unaudited)*

	2011 <i>(9 months)</i>	2010 <i>(12 months)</i>
<b>Operating activities</b>		
Net income	\$ 10,277	\$ 1,262,024
Item not affecting cash:		
Grant inflation protection	532,939	601,119
	<b>543,216</b>	<b>1,863,143</b>
Changes in non-cash working capital:		
Investment income receivable	(57,726)	(70,189)
Accounts payable and accrued liabilities	(15,034)	36,537
Prepaid expenses	(910)	
Due to Gwaii Trust Society	66,707	(384,732)
Advances payable - Gwaii Trust Society	(1,000,000)	1,000,000
	<b>(1,006,963)</b>	<b>581,616</b>
Cash flow from (used by) operating activities	<b>(463,747)</b>	<b>2,444,759</b>
<b>Investing activity</b>		
Net change in investments	607,707	(1,518,740)
<b>Financing activity</b>		
Repayment of long term debt		(800,000)
<b>Increase in cash</b>	<b>143,960</b>	<b>126,019</b>
Cash - beginning of period	129,085	3,066
<b>Cash - end of period</b>	<b>\$ 273,045</b>	<b>\$ 129,085</b>

**GWAII FOREST CHARITABLE TRUST**  
**Notes to Financial Statements**  
**Nine Month Period Ended September 30, 2011**  
*(Unaudited)*

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**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, 2011, the market value of the investment portfolio of the Trust of \$27,259,695 had risen above the the inflation adjusted endowment value of \$26,180,669. 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.

*(continues)*

**GWAI FOREST CHARITABLE TRUST**  
**Notes to Financial Statements**  
**Nine Month Period Ended September 30, 2011**  
*(Unaudited)*

**3. Summary of significant accounting policies *(continued)***

**Financial Instruments**

The Charitable Trust's 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's 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's has not classified any assets or liabilities as available for sale.

**4. Investments**

	2011		2010	
	Cost	Market	Cost	Market
Cash	\$ 48,218	\$ 48,218	\$ 34,287	\$ 34,287
Treasury bills and short term investments	99,771	99,771	49,872	49,872
Canadian government bonds	5,482,005	5,911,310	4,639,715	4,863,563
Corporate bonds	9,277,409	9,571,243	12,169,451	12,238,281
Mortgages	1,848,321	1,924,799	1,637,721	1,672,215
Equities	3,637,616	3,743,177	4,301,613	4,602,166
International equities	5,960,858	3,883,047	6,331,528	4,407,018
Equities - real estate investment trusts	2,078,130	2,078,130		
	<b>\$ 28,432,328</b>	<b>\$ 27,259,695</b>	<b>\$ 29,164,187</b>	<b>\$ 27,867,402</b>

**5. Investment income**

	2011	2010
Interest income	\$ 556,741	\$ 990,108
Dividend income	110,244	183,547
Other investment income	78,971	108,919
Realized gain (loss) on investments	(86,624)	652,797
	<b>\$ 659,332</b>	<b>\$ 1,935,371</b>

**GWAII FOREST CHARITABLE TRUST**  
**Notes to Financial Statements**  
**Nine Month Period Ended September 30, 2011**  
*(Unaudited)*

**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 period ended September 30, 2011 has been calculated monthly at the published CPI index and has averaged 3.0% for the three month period.

**7. Related party transaction**

During the period, administration fees of \$15,125 per quarter for a total of \$45,375 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.

	2011	2010
Advertising and promotion	\$ 1,350	\$ 1,800
Bank charges	450	600
Board honoraria	7,950	10,350
Meetings	1,988	2,600
Office and postage	1,988	2,600
Rent and utilities	2,850	3,600
Office supplies	1,388	1,800
Telecommunications	4,350	5,650
Travel	1,912	2,500
Vehicle expense	1,162	1,500
Wages and benefits	19,987	26,000
	<b>\$ 45,375</b>	<b>\$ 59,000</b>

**8. Transfers to Gwaii Forest Society**

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

	2011	2010
Gwaii Forest Society administration expense paid by Gwaii Forest Charitable Trust	\$	\$ 4,000

**9. 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.