

**GWAII FOREST CHARITABLE TRUST**  
**Financial Statements**  
**As at March 31, 2010**  
*(Unaudited)*

**McAlpine**  
**& Co. CA<sup>15</sup>**  

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**CHARTERED ACCOUNTANTS**

**McAlpine  
& Co. CA<sup>22</sup>**

**CHARTERED ACCOUNTANTS**

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## REVIEW ENGAGEMENT REPORT

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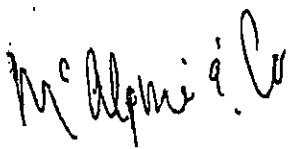
To the Trustees of the Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at March 31, 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.

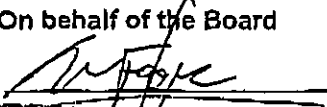

Terrace, British Columbia  
April 17, 2010

  
CHARTERED ACCOUNTANTS

**Statement of Financial Position****As at March 31, 2010***(Unaudited)*

	2010 March 31	2009 December 31
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 3,075	\$ 3,066
Investment income receivable	110,463	46,400
Prepaid expenses	3,284	564
	116,822	50,030
<b>Long term investments (Notes 3, 4)</b>	<b>26,808,635</b>	<b>26,348,662</b>
	<b>\$ 26,925,457</b>	<b>\$ 26,398,692</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	\$ 26,000	\$ 25,000
Due to Gwaii Trust Society	440,992	384,732
	466,992	409,732
<b>Long term debt (Note 5)</b>	<b>800,000</b>	<b>800,000</b>
	<b>1,266,992</b>	<b>1,209,732</b>
<b>Net Assets</b>		
Grant fund (Note 7)	25,159,839	25,046,611
Unrestricted	498,626	142,349
	25,658,465	25,188,960
	<b>\$ 26,925,457</b>	<b>\$ 26,398,692</b>

On behalf of the Board

  
 \_\_\_\_\_ Trustee  
  
 \_\_\_\_\_ Trustee

\_\_\_\_\_ Trustee

See notes to financial statements

**Statement of Revenues and Expenditures**  
**Three Month Period Ended March 31, 2010**  
*(Unaudited)*

	2010 <i>(3 months)</i>	2009 <i>(12 months)</i>
<b>Income</b>		
Investment income <i>(Note 6)</i>	\$ 438,064	\$ 946,103
<b>Investment management expenses</b>		
Actuary	1,875	24,000
Custodial fees	6,941	26,995
Investment management	26,361	84,038
	<b>35,177</b>	<b>135,033</b>
<b>Net investment earnings</b>	<b>402,887</b>	<b>811,070</b>
<b>Expenses</b>		
Accounting and audit fees	2,413	10,605
Administration fees	14,336	55,409
Bank charges		26
Communication		448
Insurance	890	3,046
Legal fees	840	29,251
Trust protector fees	8,435	26,733
	<b>26,914</b>	<b>125,518</b>
<b>Excess of income over expenses from operations</b>	<b>375,973</b>	<b>685,552</b>
<b>Grant inflation protection</b>	<b>113,228</b>	<b>321,427</b>
<b>Surplus available for program funding</b>	<b>262,745</b>	<b>364,125</b>
<b>Program recoveries (funding) <i>(Note 9)</i></b>		<b>98,988</b>
<b>Net surplus (deficit) for the period</b>	<b>262,745</b>	<b>463,113</b>
<b>Unrealized gains (losses) on long term investments</b>	<b>93,532</b>	<b>2,588,524</b>
<b>Comprehensive surplus (deficit) for the period</b>	<b>\$ 356,277</b>	<b>\$ 3,051,637</b>

See notes to financial statements

**Statement of Changes in Net Assets**  
**Three Month Period Ended March 31, 2010**  
*(Unaudited)*

	Unrestricted	Grant Fund	2010	2009
<b>Balance - beginning of period</b>	\$ 142,349	\$ 25,046,611	\$ 25,188,960	\$ 21,815,896
Comprehensive surplus (deficit)	356,277	-	356,277	3,051,637
Grant inflation protection	-	113,228	113,228	321,427
<b>Balance - end of period</b>	\$ 498,626	\$ 25,159,839	\$ 25,658,465	\$ 25,188,960

See notes to financial statements

**Statement of Cash Flow****Three Month Period Ended March 31, 2010***(Unaudited)*

	2010 <i>(3 months)</i>	2009 <i>(12 months)</i>
<b>Operating activities</b>		
Net income	\$ 356,277	\$ 3,051,637
Item not affecting cash:		
Grant inflation protection	113,228	321,427
	<b>469,505</b>	<b>3,373,064</b>
<b>Changes in non-cash working capital:</b>		
Investment income receivable	(64,063)	8,079
Accounts payable	1,000	(11,000)
Prepaid expenses	(2,720)	(564)
Loans receivable	-	190,000
Due to Gwaii Trust Society	56,260	137,961
Funding commitment - Gwaii Forest Society	-	(190,000)
	<b>(9,523)</b>	<b>134,476</b>
<b>Cash flow from operating activities</b>	<b>459,982</b>	<b>3,507,540</b>
<b>Investing activity</b>		
Net change in investments	(459,973)	(3,515,460)
<b>Increase (decrease) in cash</b>	<b>9</b>	<b>(7,920)</b>
Cash - beginning of period	3,066	10,986
<b>Cash - end of period</b>	<b>\$ 3,075</b>	<b>\$ 3,066</b>

See notes to financial statements

**Notes to Financial Statements****Three Month Period Ended March 31, 2010***(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 March 31, 2010, the market value of the investment portfolio of the Trust of \$26,808,635 had risen above the the inflation adjusted endowment value of \$25,159,839. 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.

**Notes to Financial Statements****Three Month Period Ended March 31, 2010***(Unaudited)***4. Investments**

	2010		2009	
	Cost	Market	Cost	Market
Cash	\$ 44,053	\$ 44,053	\$ 47,906	\$ 47,906
Treasury bills and short term Investments	299,942	299,942	204,949	204,949
Federal and Provincial Government bonds	8,241,440	8,539,170	7,869,376	8,139,259
Corporate bonds	6,741,371	7,043,809	6,790,249	7,279,995
Mortgages	1,570,167	1,587,747	1,550,673	1,544,570
Equities	4,355,819	4,527,845	4,419,807	4,310,611
International equities	6,951,066	4,766,069	6,951,066	4,821,372
	<b>\$ 28,203,858</b>	<b>\$ 26,808,635</b>	<b>\$ 27,834,026</b>	<b>\$ 26,348,662</b>

**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 March 31, 2010.

**6. Investment income**

	2010	2009
Interest income	\$ 377,962	\$ 732,635
Dividend income	44,765	168,201
Other investment income	-	116,170
Realized gain (loss) on investments	15,336	(70,903)
	<b>\$ 438,063</b>	<b>\$ 946,103</b>

**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 March 31, 2010 has been calculated monthly at the published CPI index and has averaged 1.8% for the three month period.

**Notes to Financial Statements****Three Month Period Ended March 31, 2010***(Unaudited)***8. Related party transaction**

During the period, administration fees of \$14,337 per quarter for a total of \$14,337 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	\$ 388	\$ 1,500
Bank charges	146	563
Board honoraria	2,588	10,000
Meetings	621	2,400
Office and postage	621	2,400
Rent and utilities	891	3,445
Office supplies	259	1,000
Telecommunications	1,423	5,500
Travel	621	2,400
Vehicle expense	311	1,200
Wages and benefits	6,468	25,000
	<b>\$ 14,337</b>	<b>\$ 55,408</b>

**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 funded by advances from Gwaii Trust Society	-	12,743
Gwaii Forest Society final program expense funded by advances from Gwaii Trust Society	-	7,513
	<b>\$ -</b>	<b>\$ (98,987)</b>

**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.