

GWAIL FOREST CHARITABLE TRUST

Financial Statements

As at September 30, 2009

(Unaudited)

McAlpine
& Co. ^{CA}

CHARTERED ACCOUNTANTS

REVIEW ENGAGEMENT REPORT

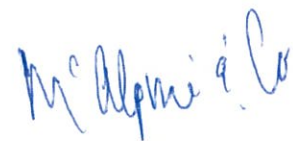
To the Trustees of the Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at September 30, 2009 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, B.C.
October 26, 2009



CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST

Statement of Financial Position

As at September 30, 2009

(Unaudited)

	2009 <i>(September 30)</i>	2008 <i>(December 31)</i>
Assets		
Current		
Cash	\$ 2,742	\$ 10,986
Investment income receivable	106,586	54,479
Loans receivable		190,000
Prepaid expenses	1,474	
	110,802	255,465
Long term investments <i>(Notes 3, 4)</i>	25,812,873	22,833,202
	\$ 25,923,675	\$ 23,088,667
Liabilities		
Current		
Accounts payable	\$ 59,661	\$ 36,000
Due to Gwaii Trust Society	242,314	246,771
Funding commitment - Gwaii Forest Society		190,000
	301,975	472,771
Long term debt <i>(Note 5)</i>	800,000	800,000
	1,101,975	1,272,771
Going Concern <i>(Note 2)</i>		
Net Assets		
Grant fund <i>(Note 7)</i>	24,868,666	24,725,184
Unrestricted	(46,966)	(2,909,288)
	24,821,700	21,815,896
	\$ 25,923,675	\$ 23,088,667

On behalf of the Board



 Trustee



 Trustee

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Nine Month Period Ended September 30, 2009
(Unaudited)

	2009 <i>(9 months)</i>	2008 <i>(12 months)</i>
Income		
Investment income <i>(Note 6)</i>	\$ 687,828	\$ 1,155,447
Investment management expenses		
Actuary	16,000	37,213
Custodial fees	20,891	26,255
Investment management	58,669	90,594
	<u>95,560</u>	<u>154,062</u>
Net investment earnings	<u>592,268</u>	<u>1,001,385</u>
Expenses		
Accounting and audit fees	7,715	11,099
Advertising and promotion		687
Bank charges	25	213
Communication	448	680
Insurance	2,136	
Legal fees	21,234	28,714
Office and miscellaneous		4,526
Travel		3,854
Trust protector fees	26,733	39,485
	<u>58,291</u>	<u>89,258</u>
Excess of income over expenses from operations	<u>533,977</u>	<u>912,127</u>
Grant inflation protection	<u>143,482</u>	<u>293,184</u>
Surplus available for Gwaii Forest Society activities	<u>390,495</u>	<u>618,943</u>
Recoveries from (transfers to) Gwaii Forest Society <i>(Note 8)</i>	<u>106,743</u>	<u>(900,000)</u>
Net surplus (deficit) for the period	<u>497,238</u>	<u>(281,057)</u>
Unrealized gains (losses) on long term investments	<u>2,365,084</u>	<u>(3,286,535)</u>
Comprehensive surplus (deficit) for the period	<u>\$ 2,862,322</u>	<u>\$ (3,567,592)</u>

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Nine Month Period Ended September 30, 2009
(Unaudited)

	Unrestricted	Grant Fund	2009	2008
Balance - beginning of year	\$ (2,909,288)	\$ 24,725,184	\$ 21,815,896	\$ 24,658,304
Comprehensive surplus (deficit)	2,862,322	-	2,862,322	(3,567,592)
Grant inflation protection	-	143,482	143,482	725,184
Balance - end of year	\$ (46,966)	\$ 24,868,666	\$ 24,821,700	\$ 21,815,896

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Cash Flow
Nine Month Period Ended September 30, 2009
(Unaudited)

	2009 <i>(9 months)</i>	2008 <i>(12 months)</i>
Operating activities		
Net income (loss)	\$ 2,862,322	\$ (3,567,592)
Item not affecting cash:		
Grant inflation protection	143,482	293,184
	3,005,804	(3,274,408)
Changes in non-cash working capital:		
Investment income receivable	(52,107)	8,763
Accounts payable	23,661	(4,719)
Prepaid expenses	(1,474)	-
Loans receivable	190,000	(190,000)
Due to Gwaii Trust Society	(4,457)	178,077
Funding commitment - Gwaii Forest Society	(190,000)	190,000
	(34,377)	182,121
Cash flow from (used by) operating activities	2,971,427	(3,092,287)
Investing activities		
Net change in investments	(2,979,671)	2,153,032
Withdrawal of funds from Trust investment account		100,000
Cash flow from (used by) investing activities	(2,979,671)	2,253,032
Financing activity		
Proceeds from long term financing		800,000
Decrease in cash	(8,244)	(39,255)
Cash - beginning of period	10,986	50,241
Cash - end of period	\$ 2,742	\$ 10,986

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Month Period Ended September 30, 2009
(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. 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 September 30, 2009, the market value of the investment portfolio of the Trust of \$25,812,874 had risen above the the inflation adjusted endowment value of \$24,868,666. 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, 2009
(Unaudited)

4. Investments

	2009		2008	
	Cost	Market	Cost	Market
Cash	\$ 48,090	\$ 48,090	\$ 29,072	\$ 29,072
Treasury bills and short term investments	374,830	374,830	398,067	398,067
Federal and Provincial Government bonds	7,645,730	7,917,040	7,486,065	7,528,345
Corporate bonds	6,712,193	7,098,526	5,975,100	5,827,332
Mortgages	1,526,254	1,518,792	1,877,293	1,878,865
Equities	4,379,685	4,081,705	4,306,598	2,991,301
International equities	6,834,895	4,773,891	6,834,895	4,180,220
	\$ 27,521,677	\$ 25,812,874	\$ 26,907,090	\$ 22,833,202

5. Long term debt

	2009	2008
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, 2009.

6. Investment income

	2009	2008
Interest income	\$ 621,634	\$ 726,727
Dividend income	124,001	143,674
Other investment income	-	439,751
Realized gain (loss) on investments	(57,807)	(154,705)
	\$ 687,828	\$ 1,155,447

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, 2009 has been calculated monthly at the published CPI index and has averaged 0.1% for the period.

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Month Period Ended September 30, 2009
(Unaudited)

8. Transfers to Gwaii Forest Society

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

	2009	2008
Payment for Gwaii Forest Society fiscal year ended March 31, 2008 - funded by advances from Gwaii Trust Society	\$	\$ 100,000
Payment for Gwaii Forest Society fiscal year ended March 31, 2009 - funded by loan from Gwaii Trust Society		800,000
Recovery of surplus funds from Gwaii Forest Society	(119,243)	
	\$ (119,243)	\$ 900,000

9. 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.