

GWAIL FOREST CHARITABLE TRUST

Financial Statements

As at March 31, 2012

(Unaudited)

**McAlpine
& Co. CA¹¹**

CHARTERED ACCOUNTANTS

McAlpine & Co. CA¹¹

CHARTERED ACCOUNTANTS

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REVIEW ENGAGEMENT REPORT

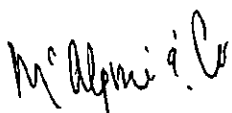
To the Trustees of Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at March 31, 2012 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 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.
April 25, 2012


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST**Statement of Financial Position****As at March 31, 2012***(Unaudited)*

	2012	2011
Assets		
Current		
Cash	\$ 194,297	\$ 224,245
Investment income receivable	164,216	111,116
Prepaid expenses	3,275	564
	361,788	335,925
Long term investments (Notes 3, 4)	28,985,225	28,153,783
	\$ 29,347,013	\$ 28,489,708
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 39,000	\$ 29,000
Due to Gwaii Trust Society	97,082	81,832
	136,082	110,832
Net Assets		
Grant fund (Note 6)	26,399,393	26,237,628
Unrestricted	2,811,538	2,141,248
	29,210,931	28,378,876
	\$ 29,347,013	\$ 28,489,708

ON BEHALF OF THE BOARD

 _____ Trustee

 _____ Trustee

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Three Months Ended March 31, 2012
(Unaudited)

	2012 <i>(3 months)</i>	2011 <i>(12 months)</i>
Income		
Investment income <i>(Note 5)</i>	\$ 430,683	\$ 1,123,122
Investment management expenses		
Actuary	4,500	16,018
Custodial fees	10,534	40,027
Investment management	29,654	102,010
	44,688	158,055
Net investment earnings	385,995	965,067
Expenses		
Accounting and audit fees	2,600	10,798
Administration fees <i>(Note 7)</i>	15,250	60,500
Advertising and promotion		78
Bank charges		16,485
Communication		302
Insurance	899	3,610
Legal fees	257	5,572
Meetings and conventions		9,929
Trust protector fees		31,971
	18,906	139,245
Excess of income over expenses from operations	367,089	825,822
Grant inflation protection <i>(Note 6)</i>	161,765	589,898
Net surplus for the year	205,324	235,924
Unrealized gains on long term investments	464,966	500,951
Comprehensive surplus for the year	\$ 670,290	\$ 736,875

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Three Months Ended March 31, 2012
(Unaudited)

	Unrestricted	Grant Fund	2012	2011
Balance - beginning of year	\$ 2,141,248	\$ 26,237,628	\$ 28,378,876	\$ 27,052,105
Comprehensive surplus for the year	670,290		670,290	736,875
Grant inflation protection		161,765	161,765	589,898
Balance - end of year	\$ 2,811,538	\$ 26,399,393	\$ 29,210,931	\$ 28,378,878

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Cash Flow
Three Months Ended March 31, 2012
(Unaudited)

	2012 <i>(3 months)</i>	2011 <i>(12 months)</i>
Operating activities		
Net income	\$ 670,290	\$ 736,875
Item not affecting cash:		
Grant inflation protection	161,765	589,898
	832,055	1,326,773
Changes in non-cash working capital:		
Investment income receivable	(53,100)	5,473
Accounts payable and accrued liabilities	10,000	(32,537)
Prepaid expenses	(2,711)	
Due to Gwaii Trust Society	15,250	81,832
Advances payable - Gwaii Trust Society		(1,000,000)
	(30,561)	(945,232)
Cash flow from operating activities	801,494	381,541
Investing activity		
Net change in investments	(831,442)	(286,381)
Increase (decrease) in cash	(29,948)	95,160
Cash - beginning of year	224,245	129,085
Cash - end of year	\$ 194,297	\$ 224,245

See notes to financial statements

GWAII FOREST CHARITABLE TRUST**Notes to Financial Statements****Three Months Ended March 31, 2012***(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 March 31, 2012, the market value of the investment portfolio of the Trust of \$28,985,225 had risen above the the inflation adjusted endowment value of \$26,399,393. 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****Three Months Ended March 31, 2012***(Unaudited)***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

	2012		2011	
	Cost	Market	Cost	Market
Cash	\$ 33,439	\$ 33,439	\$ 10,110	\$ 10,110
Treasury bills and short term investments	548,925	548,925	499,421	499,421
Federal and Provincial Government bonds	4,724,425	5,093,105	5,308,336	5,850,666
Corporate bonds	8,713,383	9,064,310	8,733,075	9,136,676
Mortgage funds	1,627,751	1,664,336	1,708,792	1,770,577
Equities	5,322,882	5,923,517	4,490,359	4,759,959
International equities	6,080,801	4,397,428	6,080,801	4,007,602
Equities - real estate investment trusts	2,000,000	2,260,166	2,000,000	2,118,772
	\$ 29,051,606	\$ 28,985,226	\$ 28,830,894	\$ 28,153,783

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Three Months Ended March 31, 2012
(Unaudited)

5. Investment income

	2012	2011
Interest income	\$ 163,367	\$ 770,317
Dividend income	49,311	152,000
Other investment income	141,394	239,555
Realized gain (loss) on investments	76,611	(38,751)
	\$ 430,683	\$ 1,123,121

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 year ended March 31, 2012 has been calculated at the average published CPI index of 2.3% (2011 - 2.3%) for the previous period.

7. Related party transaction

During the period, administration fees of \$15,250 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.

	2012	2011
Advertising and promotion	\$ 465	\$ 1,800
Bank charges	150	600
Board honoraria	2,700	10,600
Meetings	675	2,650
Office and postage	675	2,650
Rent and utilities	950	3,800
Office supplies	465	1,850
Telecommunications	1,450	5,800
Travel	650	2,550
Vehicle expense	395	1,550
Wages and benefits	6,675	26,650
	\$ 15,250	\$ 60,500

8. 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.