

GWAIL FOREST CHARITABLE TRUST

Financial Statements

As at June 30, 2012

(Unaudited)

McAlpine
& Co. CA[#]

CHARTERED ACCOUNTANTS

REVIEW ENGAGEMENT REPORT

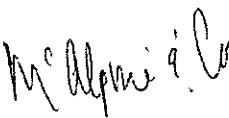
To the Trustees of Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at June 30, 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.
July 27, 2012


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST

Statement of Financial Position

As at June 30, 2012

(Unaudited)

| | 2012 <i>June 30</i> | 2011 <i>December 31</i> |
|------------------------------------------|-------------------------------|-----------------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 69,144 | \$ 224,245 |
| Investment income receivable | 119,317 | 111,116 |
| Prepaid expenses | 2,377 | 564 |
| | 190,838 | 335,925 |
| Long term investments (Notes 3, 4) | 29,011,939 | 28,153,783 |
| | \$ 29,202,777 | \$ 28,489,708 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 47,241 | \$ 29,000 |
| Due to Gwaii Trust Society | 30,500 | 81,832 |
| | 77,741 | 110,832 |
| Net Assets | | |
| Grant fund (Note 6) | 26,538,232 | 26,237,628 |
| Unrestricted | 2,586,804 | 2,141,248 |
| | 29,125,036 | 28,378,876 |
| | \$ 29,202,777 | \$ 28,489,708 |

ON BEHALF OF THE BOARD



Trustee



Trustee

See notes to financial statements

GWAII FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Six Months Ended June 30, 2012
(Unaudited)

| | 2012 <i>(6 months)</i> | 2011 <i>(12 months)</i> |
|-------------------------------------------------------|---------------------------|----------------------------|
| Income | | |
| Investment income <i>(Note 5)</i> | \$ 734,834 | \$ 1,123,122 |
| Investment management expenses | | |
| Actuary | 8,943 | 16,018 |
| Custodial fees | 20,471 | 40,027 |
| Investment management | 62,153 | 102,010 |
| | 91,567 | 158,055 |
| Net investment earnings | 643,267 | 965,067 |
| Expenses | | |
| Accounting and audit fees | 4,740 | 10,798 |
| Administration fees <i>(Note 7)</i> | 30,500 | 60,500 |
| Advertising and promotion | 78 | 78 |
| Bank charges | | 16,485 |
| Communication | 168 | 302 |
| Insurance | 1,797 | 3,610 |
| Legal fees | 258 | 5,572 |
| Meetings and conventions | | 9,929 |
| Trust protector fees | 12,500 | 31,971 |
| | 50,041 | 139,245 |
| Excess of income over expenses from operations | 593,226 | 825,822 |
| Grant inflation protection <i>(Note 6)</i> | 300,604 | 589,898 |
| Net surplus for the period | 292,622 | 235,924 |
| Unrealized gains on long term investments | 152,934 | 500,951 |
| Comprehensive surplus for the period | \$ 445,556 | \$ 736,875 |

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Six Months Ended June 30, 2012
(Unaudited)

| | Unrestricted | Grant Fund | 2012 | 2011 |
|--------------------------------------|---------------------|----------------------|----------------------|----------------------|
| Balance - beginning of period | \$ 2,141,248 | \$ 26,237,628 | \$ 28,378,876 | \$ 27,052,105 |
| Comprehensive surplus for the year | 445,556 | | 445,556 | 736,875 |
| Grant inflation protection | | 300,604 | 300,604 | 589,898 |
| Balance - end of period | \$ 2,586,804 | \$ 26,538,232 | \$ 29,125,036 | \$ 28,378,878 |

GWAII FOREST CHARITABLE TRUST**Statement of Cash Flow****Six Months Ended June 30, 2012***(Unaudited)*

| | 2012 <i>(6 months)</i> | 2011 <i>(12 months)</i> |
|------------------------------------------|---------------------------|----------------------------|
| Operating activities | | |
| Net income | \$ 445,556 | \$ 736,875 |
| Item not affecting cash: | | |
| Grant inflation protection | 300,604 | 589,898 |
| | 746,160 | 1,326,773 |
| Changes in non-cash working capital: | | |
| Investment income receivable | (8,201) | 5,473 |
| Accounts payable and accrued liabilities | 18,241 | (32,537) |
| Prepaid expenses | (1,813) | |
| Due to Gwaii Trust Society | (51,332) | 81,832 |
| Advances payable - Gwaii Trust Society | | (1,000,000) |
| | (43,105) | (945,232) |
| Cash flow from operating activities | 703,055 | 381,541 |
| Investing activity | | |
| Net change in investments | (858,156) | (286,381) |
| Increase (decrease) in cash | (155,101) | 95,160 |
| Cash - beginning of period | 224,245 | 129,085 |
| Cash - end of period | \$ 69,144 | \$ 224,245 |

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Six Months Ended June 30, 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 June 30, 2012, the market value of the investment portfolio of the Trust of \$29,011,939 had risen above the the inflation adjusted endowment value of \$26,538,232. 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
Six Months Ended June 30, 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 | \$ 13,566 | \$ 13,566 | \$ 10,110 | \$ 10,110 |
| Treasury bills and short term investments | 724,059 | 724,059 | 499,421 | 499,421 |
| Federal and Provincial Government bonds | 4,634,439 | 5,046,526 | 5,308,336 | 5,850,666 |
| Corporate bonds | 8,901,606 | 9,338,431 | 8,733,075 | 9,136,676 |
| Mortgage funds | 1,648,099 | 1,700,126 | 1,708,792 | 1,770,577 |
| Equities | 5,347,059 | 5,779,403 | 4,490,359 | 4,759,959 |
| International equities | 6,080,801 | 4,107,435 | 6,080,801 | 4,007,602 |
| Equities - real estate investment trusts | 2,000,000 | 2,302,393 | 2,000,000 | 2,118,772 |
| | \$ 29,349,629 | \$ 29,011,939 | \$ 28,830,894 | \$ 28,153,783 |

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Six Months Ended June 30, 2012

(Unaudited)

5. Investment income

| | 2012 | 2011 |
|-------------------------------------|-------------------|---------------------|
| Interest income | \$ 325,392 | \$ 770,318 |
| Dividend income | 100,152 | 152,000 |
| Other investment income | 183,621 | 239,555 |
| Realized gain (loss) on investments | 125,669 | (38,751) |
| | \$ 734,834 | \$ 1,123,122 |

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 June 30, 2012 has been calculated at the average published CPI index of 2.3% (2011 - 2.3%) for the period.

7. Related party transaction

During the period, administration fees of \$30,500 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 | \$ 930 | \$ 1,800 |
| Bank charges | 300 | 600 |
| Board honoraria | 5,400 | 10,600 |
| Meetings | 1,350 | 2,650 |
| Office and postage | 1,350 | 2,650 |
| Rent and utilities | 1,900 | 3,800 |
| Office supplies | 930 | 1,850 |
| Telecommunications | 2,900 | 5,800 |
| Travel | 1,300 | 2,550 |
| Vehicle expense | 790 | 1,550 |
| Wages and benefits | 13,350 | 26,650 |
| | \$ 30,500 | \$ 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.

GFCT - Investment Portfolio Analysis

Period end:
June 30, 2012

√

| | Portfolio Value (\$\$) | | % of Portfolio | | GFCT Current SIPP % | | | Compliance |
|-------------------------------------------------|------------------------|-------------------|----------------|------------|---------------------|------------|------------|------------|
| | Cost | Market | Cost | Market | Min | Target | Max | |
| Canadian equities | \$ 5,347,059 | \$ 5,779,403 | 18% | 20% | 15% | 20% | 25% | √ |
| International equities | 6,080,801 | 4,107,435 | 21% | 14% | 28% | 33% | 38% | x |
| Total equities | 11,427,860 | 9,886,838 | 39% | 34% | 43% | 53% | 63% | x |
| Government bonds - real return (Federal & Prov) | 4,634,439 | 5,046,526 | 16% | 17% | 10% | 15% | 20% | √ |
| Govt bonds - nominal | - | - | 0% | 0% | | | | |
| Corporate bonds | 8,901,606 | 9,338,431 | 30% | 32% | | | | |
| Total nominal bonds | 8,901,606 | 9,338,431 | 30% | 32% | 12% | 17% | 22% | x |
| High yield bonds | - | - | 0% | 0% | 0% | 5% | 10% | √ |
| Total bonds | 13,536,045 | 14,384,957 | 46% | 50% | 22% | 37% | 52% | √ |
| Mortgage fund | 1,648,099 | 1,700,126 | 6% | 6% | | | | |
| Real estate funds | 2,000,000 | 2,302,393 | 7% | 8% | | | | |
| Total mortgage & real est | 3,648,099 | 4,002,519 | 12% | 14% | 5% | 10% | 15% | √ |
| Cash | 12,726 | 12,726 | 0% | 0% | | | | |
| Cash - Nicola | 840 | 840 | 0% | 0% | | | | |
| Treasury bills and short term investments | 13,566 | 13,566 | 0% | 0% | | | | |
| | 724,059 | 724,059 | 2% | 2% | | | | |
| Cash/Short term notes | 737,625 | 737,625 | 3% | 3% | 0% | 0% | 0% | x |
| | | | | | | | | |
| | \$ 29,349,629 | \$ 29,011,939 | 100% | 100% | 70% | 100% | 130% | |

N

| Corporate Bonds | Cost | Market |
|-----------------------------|--------------|--------------|
| Corporate Bonds - \$\$Can | \$ 6,329,185 | \$ 6,406,171 |
| Pooled Fixed Income Funds | 2,241,499 | 2,606,406 |
| Bonds & Debentures - \$\$US | 330,922 | 325,854 |
| | \$ 8,901,606 | \$ 9,338,431 |