

GWAIL FOREST CHARITABLE TRUST

Financial Statements

As at September 30, 2012

(Unaudited)

**McAlpine
& Co. CA^{II}**

CHARTERED ACCOUNTANTS

REVIEW ENGAGEMENT REPORT

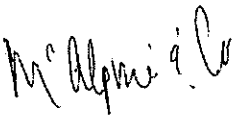
To the Trustees of Gwaii Forest Charitable Trust

We have reviewed the statement of financial position of Gwaii Forest Charitable Trust as at September 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.
October 25, 2012


CHARTERED ACCOUNTANTS

GWAIL FOREST CHARITABLE TRUST

Statement of Financial Position

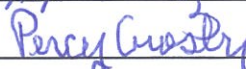
As at September 30, 2012

(Unaudited)

	2012 <i>September 30</i>	2011 <i>December 31</i>
Assets		
Current		
Cash	\$ 244,473	\$ 224,245
Investment income receivable	164,146	111,116
Prepaid expenses	1,470	564
	410,089	335,925
Long term investments <i>(Notes 3, 4)</i>	29,589,454	28,153,783
	\$ 29,999,543	\$ 28,489,708
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 31,741	\$ 29,000
Due to Gwaii Trust Society <i>(Note 7)</i>	45,750	81,832
	77,491	110,832
Net Assets		
Grant fund <i>(Note 6)</i>	26,655,244	26,237,628
Unrestricted	3,266,808	2,141,248
	29,922,052	28,378,876
	\$ 29,999,543	\$ 28,489,708

ON BEHALF OF THE BOARD


_____ Trustee


_____ Trustee

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Nine Months Ended September 30, 2012
(Unaudited)

	2012 <i>(9 months)</i>	2011 <i>(12 months)</i>
Income		
Investment income <i>(Note 5)</i>	\$ 957,868	\$ 1,123,122
Investment management expenses		
Actuary	21,570	16,018
Custodial fees	32,042	40,027
Investment management	89,608	102,010
	143,220	158,055
Net investment earnings	814,648	965,067
Expenses		
Accounting and audit fees	6,980	10,798
Administration fees <i>(Note 7)</i>	45,750	60,500
Advertising and promotion	78	78
Bank charges	6	16,485
Communication	168	302
Insurance	2,704	3,610
Legal fees	11,191	5,572
Meetings and conventions		9,929
Trust protector fees	18,593	31,971
	85,470	139,245
Excess of income over expenses from operations	729,178	825,822
Grant inflation protection <i>(Note 6)</i>	417,616	589,898
Net surplus for the period	311,562	235,924
Unrealized gains on long term investments	813,998	500,951
Comprehensive surplus for the period	\$ 1,125,560	\$ 736,875

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Nine Months Ended September 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 period	1,125,560		1,125,560	736,875
Grant inflation protection		417,616	417,616	589,898
Balance - end of period	\$ 3,266,808	\$ 26,655,244	\$ 29,922,052	\$ 28,378,878

GWAII FOREST CHARITABLE TRUST
Statement of Cash Flow
Nine Months Ended September 30, 2012
(Unaudited)

	2012 <i>(9 months)</i>	2011 <i>(12 months)</i>
Operating activities		
Net income	\$ 1,125,560	\$ 736,875
Item not affecting cash:		
Grant inflation protection	417,616	589,898
	1,543,176	1,326,773
Changes in non-cash working capital:		
Investment income receivable	(53,030)	5,473
Accounts payable and accrued liabilities	2,741	(32,537)
Prepaid expenses	(906)	
Due to Gwaii Trust Society	(36,082)	81,832
Advances payable - Gwaii Trust Society		(1,000,000)
	(87,277)	(945,232)
Cash flow from operating activities	1,455,899	381,541
Investing activity		
Net change in investments	(1,435,671)	(286,381)
Increase in cash	20,228	95,160
Cash - beginning of period	224,245	129,085
Cash - end of period	\$ 244,473	\$ 224,245

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Months Ended September 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 September 30, 2012, the market value of the investment portfolio of the Trust of \$29,589,454 had risen above the the inflation adjusted endowment value of \$26,655,244. 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
Nine Months Ended September 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	\$ 13,587	\$ 13,587	\$ 10,110	\$ 10,110
Treasury bills and short term investments	872,785	872,785	499,421	499,421
Federal and Provincial Government bonds	5,822,275	6,225,991	5,308,336	5,850,666
Corporate bonds	7,722,356	8,215,501	8,733,075	9,136,676
Mortgage funds	1,668,693	1,708,364	1,708,792	1,770,577
Equities	5,376,041	6,043,923	4,490,359	4,759,959
International equities	5,737,327	4,153,524	6,080,801	4,007,602
Equities - real estate investment trusts	2,000,000	2,355,779	2,000,000	2,118,772
	\$ 29,213,064	\$ 29,589,454	\$ 28,830,894	\$ 28,153,783

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Nine Months Ended September 30, 2012
(Unaudited)

5. Investment income

	2012	2011
Interest income	\$ 488,928	\$ 770,318
Dividend income	152,119	152,000
Other investment income	237,007	239,555
Realized gain (loss) on investments	79,815	(38,751)
	\$ 957,869	\$ 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 September 30, 2012 has been calculated at the average published CPI index of 1.7% (2011 - 2.3%) for the period.

7. Related party transaction

During the period, administration fees of \$45,750 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	\$ 1,395	\$ 1,800
Bank charges	450	600
Board honoraria	8,100	10,600
Meetings	2,025	2,650
Office and postage	2,025	2,650
Rent and utilities	2,850	3,800
Office supplies	1,395	1,850
Telecommunications	4,350	5,800
Travel	1,950	2,550
Vehicle expense	1,185	1,550
Wages and benefits	20,025	26,650
	\$ 45,750	\$ 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.