

GWAIL FOREST CHARITABLE TRUST

Financial Statements

As at June 30, 2010

(Unaudited)

**McAlpine
& Co. CA¹¹**

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 June 30, 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
July 16, 2010


CHARTERED ACCOUNTANTS

GWAI FOREST CHARITABLE TRUST
Statement of Financial Position
As at June 30, 2010
(Unaudited)

	2010 June 30	2009 December 31
Assets		
Current		
Cash	\$ 250,352	\$ 3,066
Investment income receivable	47,016	46,400
Prepaid expenses	2,384	564
	299,752	50,030
Long term investments (Notes 3, 4)	26,178,414	26,348,662
	\$ 26,478,166	\$ 26,398,692
Liabilities		
Current		
Accounts payable	\$ 26,001	\$ 25,000
Due to Gwaii Trust Society	230,463	384,732
	256,464	409,732
Long term debt (Note 5)	800,000	800,000
	1,056,464	1,209,732
Net Assets		
Grant fund (Note 7)	25,259,807	25,046,611
Unrestricted	161,895	142,349
	25,421,702	25,188,960
	\$ 26,478,166	\$ 26,398,692

ON BEHALF OF THE BOARD


 _____ Trustee
 _____ Trustee


 _____ Trustee

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Six Month Period Ended June 30, 2010
(Unaudited)

	2010 <i>(6 months)</i>	2009 <i>(12 months)</i>
Income		
Investment income <i>(Note 6)</i>	\$ 847,478	\$ 946,103
Investment management expenses		
Actuary	3,420	24,000
Custodial fees	13,656	26,995
Investment management	50,233	84,038
	67,309	135,033
Net investment earnings	780,169	811,070
Expenses		
Accounting and audit fees	4,959	10,605
Administration fees	28,674	55,409
Bank charges		26
Communication	134	448
Insurance	1,790	3,046
Legal fees	1,573	29,251
Trust protector fees	8,435	26,733
	45,565	125,518
Excess of income over expenses from operations	734,604	685,552
Grant inflation protection	213,196	321,427
Surplus available for program funding	521,408	364,125
Program recoveries (funding) <i>(Note 9)</i>		98,988
Net surplus (deficit) for the period	521,408	463,113
Unrealized gains (losses) on long term investments	(501,862)	2,588,524
Comprehensive surplus (deficit) for the period	\$ 19,546	\$ 3,051,637

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Six Month Period Ended June 30, 2010
(Unaudited)

	Unrestricted	Grant Fund	2010	2009
Balance - beginning of period	\$ 142,349	\$ 25,046,611	\$ 25,188,960	\$ 21,815,896
Comprehensive surplus (deficit)	19,546	-	19,546	3,051,637
Grant inflation protection	-	213,196	213,196	321,427
Balance - end of period	\$ 161,895	\$ 25,259,807	\$ 25,421,702	\$ 25,188,960

GWAII FOREST CHARITABLE TRUST
Statement of Cash Flow
Six Month Period Ended June 30, 2010
(Unaudited)

	2010 <i>(6 months)</i>	2009 <i>(12 months)</i>
Operating activities		
Net income	\$ 19,546	\$ 3,051,637
Item not affecting cash:		
Grant inflation protection	213,196	321,427
	232,742	3,373,064
Changes in non-cash working capital:		
Investment income receivable	(616)	8,079
Accounts payable	1,001	(11,000)
Prepaid expenses	(1,820)	(564)
Loans receivable	-	190,000
Due to Gwaii Trust Society	(154,269)	137,961
Funding commitment - Gwaii Forest Society	-	(190,000)
	(155,704)	134,476
Cash flow from operating activities	77,038	3,507,540
Investing activity		
Net change in investments	170,248	(3,515,460)
Increase (decrease) in cash	247,286	(7,920)
Cash - beginning of period	3,066	10,986
Cash - end of period	\$ 250,352	\$ 3,066

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Six Month Period Ended June 30, 2010
(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, 2010, the market value of the investment portfolio of the Trust of \$26,178,414 had risen above the the inflation adjusted endowment value of \$25,259,807. 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
Six Month Period Ended June 30, 2010
(Unaudited)

4. Investments

	2010		2009	
	Cost	Market	Cost	Market
Cash	\$ 1,411	\$ 1,411	\$ 47,906	\$ 47,906
Treasury bills and short term investments	349,814	349,814	204,949	204,949
Federal and Provincial Government bonds	4,839,001	4,992,647	7,869,376	8,139,259
Corporate bonds	6,868,082	7,195,470	6,790,249	7,279,995
Mortgages	1,589,904	1,637,599	1,550,673	1,544,570
Equities	8,283,379	8,135,433	4,419,807	4,310,611
International equities	6,222,610	3,866,040	6,951,066	4,821,372
	\$ 28,154,201	\$ 26,178,414	\$ 27,834,026	\$ 26,348,662

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 June 30, 2010.

6. Investment income

	2010	2009
Interest income	\$ 565,318	\$ 732,635
Dividend income	102,697	168,201
Other investment income	-	116,170
Realized gain (loss) on investments	179,463	(70,903)
	\$ 847,478	\$ 946,103

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 June 30, 2010 has been calculated monthly at the published CPI index and has averaged 1.6% for the six month period.

GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Six Month Period Ended June 30, 2010
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8. Related party transaction

During the period, administration fees of \$14,337 per quarter for a total of \$28,674 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	\$ 776	\$ 1,500
Bank charges	292	563
Board honoraria	5,175	10,000
Meetings	1,242	2,400
Office and postage	1,242	2,400
Rent and utilities	1,783	3,445
Office supplies	516	1,000
Telecommunications	2,846	5,500
Travel	1,242	2,400
Vehicle expense	621	1,200
Wages and benefits	12,938	25,000
	\$ 28,673	\$ 55,408

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
	\$ -	\$ (98,987)

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.

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ON BEHALF OF THE BOARD

_____ *Trustee*

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