

GWAII FOREST CHARITABLE TRUST
Financial Statements
As at December 31, 2013

McAlpine
& Co. CA[#]

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Trustees of Gwaii Forest Charitable Trust

We have audited the accompanying financial statements of Gwaii Forest Charitable Trust, which comprise the statement of financial position as at December 31, 2013 and the statements of revenues and expenditures, changes in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report to the Trustees of Gwaii Forest Charitable Trust *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gwaii Forest Charitable Trust as at December 31, 2013 and the results of its operations and its cash flow for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Terrace, B.C.
February 13, 2014


CHARTERED ACCOUNTANTS

GWAII FOREST CHARITABLE TRUST
Statement of Financial Position
As at December 31, 2013

	2013	2012
Assets		
Current		
Cash	\$ 55,719	\$ 198,712
Investment income receivable	575	71,667
Prepaid expenses	56,294	562
	35,162,468	270,941
Long term investments (Notes 3, 4, 5)	35,162,468	30,617,559
	\$ 35,218,762	\$ 30,888,500
Liabilities		
Current		
Bank indebtedness	\$ 65,085	\$ 48,173
Accounts payable and accrued liabilities	63,848	61,000
Due to Gwaii Trust Society	46,500	175,433
	175,433	109,173
Net assets		
Unrestricted	8,278,430	4,331,798
Grant fund (Note 7)	26,764,899	26,447,529
	35,043,329	30,779,327
	\$ 35,218,762	\$ 30,888,500

On behalf of the Board


 _____ Trustee


 _____ Trustee

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Revenues and Expenditures
Year Ended December 31, 2013

	2013	2012
Income		
Investment income <i>(Note 6)</i>	\$ 2,973,256	\$ 1,622,405
Investment management and regulatory expenses		
Actuary	18,175	31,852
Custodial fees	51,721	45,176
Investment management	146,246	116,406
Legal fees	95,643	16,607
Trust protector fees	27,968	36,538
	339,753	246,579
Net trust earnings	2,633,503	1,375,826
Expenses		
Accounting and audit fees	11,977	9,332
Administration fees <i>(Note 8)</i>	62,000	61,000
Advertising and promotion		78
Bank charges	5	5
Communication	124	168
Insurance	3,672	3,612
	77,778	74,195
Excess of income over expenses from operations	2,555,725	1,301,631
Grant inflation protection <i>(Note 7)</i>	(317,370)	(209,901)
Net surplus for the year	2,238,355	1,091,730
Unrealized gains on long term investments	1,708,277	1,098,820
Comprehensive surplus for the year	\$ 3,946,632	\$ 2,190,550

See notes to financial statements

GWAIL FOREST CHARITABLE TRUST
Statement of Changes in Net Assets
Year Ended December 31, 2013

	Unrestricted	Grant Fund	2013	2012
Net assets - beginning of year	\$ 4,331,798	\$ 26,447,529	\$ 30,779,327	\$ 28,378,875
Excess of income over expenses	3,946,632		3,946,632	2,190,550
Grant inflation protection (<i>Note 7</i>)		317,370	317,370	209,901
Net assets - end of year	\$ 8,278,430	\$ 26,764,899	\$ 35,043,329	\$ 30,779,326

See notes to financial statements

GWAII FOREST CHARITABLE TRUST**Statement of Cash Flow****Year Ended December 31, 2013**

	2013	2012
Operating activities		
Excess of income over expenses	\$ 3,946,632	\$ 2,190,550
Item not affecting cash:		
Grant inflation protection	317,370	209,901
	4,264,002	2,400,451
Changes in non-cash working capital:		
Investment income receivable	15,948	39,449
Accounts payable and accrued liabilities	15,675	19,173
Prepaid expenses	(13)	2
Due to Gwaii Trust Society	(14,500)	(20,832)
	17,110	37,792
Cash flow from operating activities	4,281,112	2,438,243
Financing activity		
Net change in investments	(4,544,909)	(2,463,776)
Decrease in cash flow	(263,797)	(25,533)
Cash - beginning of year	198,712	224,245
Cash (deficiency) - end of year	\$ (65,085)	\$ 198,712
Cash (deficiency) consists of:		
Cash	\$	\$ 198,712
Bank indebtedness	(65,085)	
	\$ (65,085)	\$ 198,712

See notes to financial statements

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2013

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 December 31, 2013, the market value of the investment portfolio of the Trust of \$35,162,468 had risen above the the inflation adjusted endowment value of \$26,764,899. 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 the 2014 fiscal year programming reconfigurations are complete. 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 presentation

The financial statements were prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (ASNFP). Canadian Accounting Standards for Not-for-Profit Organizations are part of Canadian GAAP.

Cash and cash equivalents

Cash includes cash and cash equivalents. Cash equivalents are investments in treasury bills and other short term instruments and are valued at cost plus accrued interest. The carrying amounts approximate fair value because they have maturities at the date of purchase of less than ninety days.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial assets with actively traded markets are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are reported at amortized cost, and tested for impairment at each reporting date. Transaction costs on the acquisition, sale, or issue of financial instruments are expensed when incurred.

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GWAII FOREST CHARITABLE TRUST
Notes to Financial Statements
Year Ended December 31, 2013

3. Summary of significant accounting policies (continued)

Revenue recognition

Gwaii Forest Charitable Trust follows the deferral method of accounting for contributions.

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.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian Accounting Standards for Not-for-Profit Organizations 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. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

4. Investments

	2013		2012	
	Cost	Market	Cost	Market
Cash	\$ 29,228	\$ 29,228	\$ 731,039	\$ 731,039
Treasury bills and short term investments	114,760	114,760	124,848	124,848
Federal and Provincial Government bonds	3,358,349	3,298,456	3,671,762	3,804,840
Corporate bonds	7,709,244	7,633,703	5,806,149	6,201,143
Mortgage funds	727,048	731,775	1,056,804	1,080,594
Equities	5,899,784	7,223,011	5,407,648	6,362,625
International equities	10,559,078	12,736,776	9,496,365	8,524,427
Equities - real estate investment trusts	2,631,610	3,394,759	3,559,502	3,788,043
	\$ 31,029,101	\$ 35,162,468	\$ 29,854,117	\$ 30,617,559

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2013

5. Statement of investment policies and procedures

The investment strategies of the Gwaii Forest Charitable Trust (the "Trust") are guided by the Statement of Investment Policies and Procedures (SIPP). The SIPP has been written in order to assist the Trustees in establishing the guidelines for the investment of the assets of the Trust (the "Fund") and in monitoring and evaluating the investment performance achieved by the Fund. A summary of the current investment guidelines contained in the SIPP and the current asset mix of the Fund is as follows.

Period end:

December 31, 2013

	Portfolio Value (\$\$)		% of Portfolio		GFCT Current SIPP %		
	Cost	Market	Cost	Market	Min	Target	Max
Canadian equities	\$ 5,899,784	\$ 7,223,011	19%	21%	15%	20%	25%
International equities	10,559,078	12,736,776	34%	36%	28%	33%	38%
Total equities	16,458,862	19,959,787	53%	57%	43%	53%	63%
Real return bonds	3,827,224	3,566,979	12%	10%	10%	15%	20%
Government bonds - Federal	1,218,330	1,215,135	4%	3%			
Government bonds - Provincial & municipal	2,140,019	2,083,321	7%	6%			
Corporate bonds	2,931,864	2,921,069	9%	8%			
Total nominal bonds	6,290,213	6,219,525	20%	18%	12%	17%	22%
High yield bonds	950,156	1,145,655	3%	3%	0%	5%	10%
Total bonds	11,067,593	10,932,159	36%	31%	22%	37%	52%
Mortgage fund	727,048	731,775	2%	2%			
Real estate funds	2,631,610	3,394,759	8%	10%			
Total mortgage & real estate	3,358,658	4,126,534	11%	12%	5%	10%	15%
Cash	29,228	29,228	0%	0%			
Treasury bills and short term investments	114,760	114,760	0%	0%			
Cash/Short term notes	143,988	143,988	0%	0%	0%	0%	0%
	\$ 31,029,101	\$ 35,162,468	100%	100%	70%	100%	130%

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2013

6. Investment income

	2013	2012
Interest income	\$ 510,736	\$ 657,990
Dividend income	227,418	205,143
Other investment income	1,780,011	370,865
Realized gain (loss) on investments	455,091	388,407
	\$ 2,973,256	\$ 1,622,405

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 year ended December 31, 2013 has been calculated at the CPI index of 1.2% (2012 - 0.8%) for the year.

8. Related party transaction

During the year, administration fees of \$62,000 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. The Gwaii Trust Society is the trustee of the Gwaii Forest Charitable Trust.

	2013	2012
Advertising and promotion	\$ 1,880	\$ 1,860
Bank charges	620	600
Board honoraria	11,000	10,800
Meetings	2,800	2,700
Office and postage	2,800	2,700
Rent and utilities	3,600	3,800
Office supplies	1,900	1,860
Telecommunications	5,900	5,800
Travel	2,700	2,600
Vehicle expense	1,800	1,580
Wages and benefits	27,000	26,700
	\$ 62,000	\$ 61,000

GWAII FOREST CHARITABLE TRUST

Notes to Financial Statements

Year Ended December 31, 2013

9. Financial instruments

The organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of December 31, 2013.

Market risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization is exposed to foreign currency exchange risk on cash, accounts receivable, and accounts payable held in U.S. dollars. The company does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its floating interest rate bank indebtedness and credit facilities.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The organization is exposed to other price risk through its investment in quoted shares.