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Gwaii Trust Society
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Attention: Ken Rea, Chairperson

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John T. Jones
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October 19, 2009

Dear Trustees:

Re: Gwaii Forest Charitable Trust (“GFCT”)

We write in our capacity as “Protector” pursuant to the Deed of Trust (the “Deed”) made on the 29th day of March 2007 by the Gwaii Trust Society, to provide the Protector’s determination as to whether there may have been a Breach under the Deed during the fiscal year ended December 31, 2008. For purposes of this reporting letter, all defined names, unless otherwise defined herein, have the meaning as set out in the Deed.

Our comments are organized under the following subject headings:

- (1) Breach Determination and Review of Reporting Material
- (2) Other Disclosure Matters
- (3) Protector Determination

BREACH DETERMINATION AND REVIEW OF REPORTING MATERIAL

In accordance with Section 38 of the Deed, the Protector is required annually within ninety days of the Receipt of the Financial Statements and Operations Report, to determine whether the Trustees are in breach of their obligations under the Deed or Applicable Law or whether there are reasonable grounds to believe that any or all of the Trust Property has been used, with the knowledge and acquiescence of the Trustees, for one or more purposes that are other than one or more of the Purposes during the Year just ended.

In considering whether there has been a Breach under the Deed, the Protector has performed a review of the Reporting Material and conducted such enquiries as deemed necessary. As a result of the Protector's review, the following items have been identified as not being in compliance with the requirements set out in the Deed:

- (a) Quarterly Statements in respect of the fiscal quarter ended March 31, 2008.
 - The quarterly financial statements for the fiscal quarter ended March 31, 2008 were received by the Protector on May 7, 2008.
 - Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended March 31, 2008 was no later than April 30, 2008.
- (b) Quarterly Statements in respect of the fiscal quarter ended June 30, 2008.
 - The quarterly financial statements for the fiscal quarter ended June 30, 2008 were received by the Protector on July 31, 2008.
 - Pursuant to Section 36(a) of the Deed, the Quarterly Statements are to be provided to the Protector within thirty days of the end of such Fiscal Quarter. In this case, the due date for the submission of the financial statements for the quarter ended June 30, 2008 was no later than July 30, 2008.
- (c) Website Publishing of Reporting Material.
 - The Reporting Material consisting of the quarterly financial statements for the fiscal quarter ended March 31, 2008 had not been posted to the Website as at June 25, 2008 but were posted subsequently. The revised annual financial statements for the fiscal year ended December 31, 2008 were posted to the Website on July 23, 2009.
 - Pursuant to Section 35(c) of the Deed, the publishing of the Reporting Material on the Website is to be completed not less than fourteen days after the Reporting Material is delivered to the Protector. The Protector has assumed that the intent of Section 35(c) is that postings should be done within fourteen days.
- (d) Preparation and Publishing of Strategic Plan.
 - The strategic plan in final form was received by the Protector on May 8, 2008.
 - Pursuant to Section 23 of the Deed, the strategic plan for the use of the funds of the Trust should have been completed before the first anniversary of the



settlement of the Trust, or no later than March 31, 2008, and posted to the Website “promptly” thereafter.

(e) Reporting of Trustee Changes.

- A new Trustee executed a Trustee Declaration on June 28, 2008 and a copy of this document was not delivered to the Protector. The Trustee Declaration was posted to the Website as at August 28, 2008, when the Protector was advised of such posting.
- Pursuant to Section 55 of the Deed, a Trustee must execute a Trustee Declaration and deliver same to the Community and the Protector.

OTHER DISCLOSURE MATTERS

In considering whether there may have been a Breach under the Deed, the Protector has identified and generally discussed with the Trustees the following matters which may not all have been contemplated when the Deed was prepared:

(a) Requirement to Preserve Capital.

- Pursuant to Section 27 of the Deed, the Trustees have a duty to “manage the value of the Trust Property in order to maintain the value of the Capital from erosion by inflation”.
- Section 27 provides further that the Trustees may make distributions of Income or Capital in furtherance of the Purposes, but distribution of Capital for the Purposes may only be made if:
 - i) such distributions are approved by unanimous approval of the Trustees;
 - ii) there has been appropriate consultation with the Community Representatives prior to the distribution; and
 - iii) the Trustees have determined with the advice of the Professional Advisors that such encroachment on the Capital can be restored within a reasonable period of time.
- As defined in the Deed, Capital means, at a particular time, the original value of certain contributions to the Trust, adjusted for changes in inflation prior to the particular time.
- In January of 2008, the Trustees concluded their review of the proposed Eligible Projects for 2008 and committed to fund approximately \$832,000 of

Eligible Projects and related administration costs of the Forest Society (consisting of approximately \$548,000 and \$284,000, respectively). At the time that the Trustees consented to this funding, the value of the Trust Property was \$25,148,172 (value as at December 31, 2007).

- After making the commitment to fund \$832,000 of Eligible Projects and related administration costs, the Trustees arranged to borrow the sum of \$800,000 from the Gwaii Trust Society, rather than funding the entire amount out of the Trust Property. The terms of the loan provide that no payments are required until the value of the Trust Property exceeds the amount of the Capital.
- In June of 2008, \$100,000 was withdrawn from the Trust Property to fund the administration expenses of the Trust. Section 59 of the Deed permits payment from the Trust Property for reasonable administrative expenses of the Trust.
- Due to the downturn in the financial markets, the value of the Trust Property at the end of 2008 was \$22,884,118, \$1,547,882 less than the \$24,432,000 required Capital as of December 31, 2008.
- In the circumstances that have occurred, the Trustees have determined that no further distributions will be made from the Trust for Eligible Projects until the value of the Trust Property exceeds the amount of the Capital by not less than \$3,000,000 (recognizing that the amount of the Capital changes over time due to the inflation adjustment).
- It is the view of the Protector that no distributions should be made from the Trust for Eligible Projects that would have the effect of reducing the value of the net assets of the Trust below the amount that is the total of:
 - i) the amount of the Capital;
 - ii) the amount outstanding on the loan from the Gwaii Trust Society; and
 - iii) the amount of any other liabilities of the Trust outstanding at the time.

The Protector cautions that any distributions made from the Trust for Eligible Projects that would have the effect of reducing the value of the net assets of the Trust below the amount determined above will constitute a Breach.

(b) Reporting on Approved 2008 Eligible Projects.

- Pursuant to Section 22 of the Deed, the Trustees have a duty to monitor each Eligible Project which received funding from the Trust Property by receiving



reports from the Forest Society in such intervals as the Trustees deem appropriate.

- The Forest Society did not administer the Eligible Projects within the Trust's Fiscal Year and instead operated on their own fiscal year being April 1, 2008 to March 31, 2009. Accordingly, as at the Trust's fiscal year end of December 31, 2008, the administration of the 2008 approved Eligible Projects had not been completed by the Forest Society and so the Trustees could not reasonably have assessed whether each approved Eligible Project had been fully carried out in accordance with the applicable Application for Funding and the Purposes.
- As at the date of this letter, the Protector understands that final reports and an accounting of the funding of the Eligible Projects undertaken in the 2008 fiscal year, including the Forest Society's related administration costs, has been provided by the Forest Society and that the Trustees are in the process of reviewing this information. The Forest Society repaid approximately \$119,000 to GFCT on June 19, 2009, apparently on account of lower than forecasted funding of certain 2008 Eligible Projects and related administration costs.
- The Protector understands that the Forest Society has ceased operations and that the Trustees may be considering alternative means to administer future approved Eligible Projects in a more cost-effective manner as and when the value of the Trust Property is sufficient to permit such activity to resume.
- It is the view of the Protector that the Trustees should complete their monitoring of the Eligible Projects funded in 2008 before any further distributions are made from the Trust to the Forest Society. Once the monitoring is complete, a revised Operations Report for 2008 should be prepared and delivered to the Protector and to the Community within 60 days from the date of this letter, such document to also include the revised annual financial statements for the fiscal year ended December 31, 2008.

PROTECTOR DETERMINATION

As discussed above, the Protector in its review of the Reporting Material and other such enquires, has identified various items that were not in compliance with the requirements set out in the Deed. Pursuant to the requirements of the Deed, these items could technically be considered as a Breach. However, all of the items discussed above have been resolved prior to the date of this letter. Consequently, the Protector does not believe that further action is warranted at this time.



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Accordingly, pursuant to Section 38(a) of the Deed, the Protector has found no reportable Breach of the Deed for the fiscal year ended December 31, 2008.

Should you have any questions or concerns with respect to the foregoing, please do not hesitate to contact either Peter Gibson on (604) 691-3223, pgibson@kpmg.ca, or Anthony Tillman on (604) 646-6332, atillman@kpmg.ca.

Yours very truly,
KPMG Inc., in its
capacity as Protector
and not in its personal capacity

Peter D. Gibson
Senior Vice-President

Anthony Tillman
Senior Manager

Mark Kemp-Gee
Manager

cc Anthony Knox, McCarthy Tétrault LLP