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August 2, 2011

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 (“GTS”), 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, 2010. For purposes of this reporting letter, all defined terms, 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

Pursuant to Section 38 of the Deed, the Protector is required to determine, within ninety days of the receipt of the Financial Statements and Operations Report in each Fiscal Year, 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. Following the making of this determination, the Protector is required to provide to the Trustees either a written notice that it has found no Breach or, if there are reasonable grounds to believe that there may have been a Breach, a Notice of Breach.



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In considering whether there has been a Breach under the Deed, the Protector has performed a review of the Reporting Material and conducted such inquiries 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 June 30, 2010.

- The quarterly financial statements for the Fiscal Quarter ended June 30, 2010 were received by the Protector on August 4, 2010.
- 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, 2010 was no later than July 30, 2010.

(b) Quarterly Statements in respect of the Fiscal Quarter ended September 30, 2010.

- The quarterly financial statements for the Fiscal Quarter ended September 30, 2010 were received by the Protector on November 1, 2010.
- 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 September 30, 2010 was no later than October 30, 2010.

(c) Financial Statements in respect of the Fiscal Year ended December 31, 2010.

- The Financial Statements for the Fiscal Year ended December 31, 2010 were delivered to the Protector on February 15, 2011.
- Pursuant to Section 36(b) of the Deed, the Financial Statements for each Fiscal Year are to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Financial Statements for the Fiscal Year ended December 31, 2010 was no later than February 14, 2011.
- The Protector understands that the Financial Statements were delivered late, at least in part, on account of revisions which were made to a preliminary draft set of financial statements which were provided to the Trustees and the Protector on February 9, 2011. These revisions primarily related to the disclosure surrounding \$1.0 million which was received in error during December 2010 from GTS, as subsequently discussed.

(d) Operations Report in respect of the Fiscal Year ended December 31, 2010.

- The Protector was advised by GFCT via email on February 16, 2011 that the Operations Report for the Fiscal Year ended December 31, 2010 had been published to the Website on that date.
- Pursuant to Section 36(b) of the Deed, the Operations Report is to be provided to the Protector within forty-five days of the end of such Fiscal Year. In this case, the due date for the submission of the Operations Report for the Fiscal Year ended December 31, 2010 was no later than February 14, 2011. Also, Section 34(d) of the Deed requires that the Operations Report be delivered to the Protector; this is in addition to the requirement that the Operations Report be published on the Website (under Section 35(c) of the Deed).



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- The Protector provided comments with respect to the Operations Report and a revised Operations Report for the Fiscal Year ended December 31, 2010 (the “Revised Operations Report”) was delivered to the Protector on April 29, 2011.

(e) Website Publishing of Reporting Material.

- The Reporting Material consisting of the quarterly financial statements for the Fiscal Quarter ended September 30, 2010 was delivered to the Protector on November 1, 2010 and was apparently posted to the Website as at November 29, 2010. The Revised Operations Report was delivered to the Protector on April 29, 2011 and was apparently posted to the Website on June 28, 2011.
- 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.

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, and some of which include follow up to certain matters which were discussed in the Protector’s letter to the Trustees dated August 6, 2010 (the “Prior Breach Determination Letter”):

(a) 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.
- In the Prior Breach Determination Letter, the Protector discussed certain issues in respect of the reporting on the approved 2008 Eligible Projects in both the 2008 Operations Report and the 2009 Operations Report and its request for additional reporting, which was not provided.
- The Protector continues to be of the view that, as and when funding for Eligible Projects resumes, the Trustees should establish more rigorous processes for receiving and reviewing project reporting and provide additional disclosure in the Operations Report as to the quantitative and qualitative outcomes for all approved Eligible Projects.

(b) Funding of Administrative Expenses.

- Pursuant to Decision Record #09-001, dated May 15, 2009, the Trustees decided that all administrative expenses, including amounts due to GTS in respect of administrative expenses they had previously funded, would be repaid from Capital on a quarterly basis.
- As at the date of the Prior Breach Determination Letter, no withdrawals from Capital had been made to fund administrative costs or to pay amounts due to GTS.



- During April 2010, \$500,000 was redeemed from one of GFCT's investments and was used, over the balance of 2010, to fund ongoing administrative costs and to repay a portion of the short-term amounts due to GTS. The balance of the short-term amounts due to GTS was repaid in full during December 2010.

(c) Investment Strategy.

- Section 21 of the Deed requires the Trustees to develop with the assistance of the Professional Advisors, in respect of each Fiscal Year, an investment strategy, or statement of investment policies ("SIP"), for the investment of the Trust Property in such Fiscal Year and to complete and publish it on the Website on or before the commencement of such Fiscal Year.
- An unsigned amended SIP for GTS, dated May 21, 2010, was delivered to the Protector on February 17, 2011. The Protector was advised that this was the current SIP and would be published to the Website, as well as GTS' website, as soon as possible.
- A signed version of this investment strategy, renamed as "Gwaii Forest Charitable Trust Statement of Investment Policies and Procedures (Revised May 21 2010)" (the "Revised SIP"), was not delivered to the Protector. However, the Protector located this document on the Website on February 21, 2011.
- According to the Revised Operations Report, it appears that the Revised SIP may have been accepted by the Trustees as at November 8, 2010. However, a Decision Record dated February 21, 2011 and published on the Website on or about June 16, 2011 states that the Revised SIP was adopted on February 21, 2011.
- Thus, it is unclear precisely when the Revised SIP was adopted but it was not published to the Website by December 31, 2010 as required by Section 21 of the Deed.
- Furthermore, the Protector discussed with the Trustees that the Revised SIP may include certain policies and procedures which are not applicable to GFCT but only to GTS and that they may wish to either amend or append it to disclose those policies and procedures which are not relevant to GFCT. To date, the Revised SIP has not been so amended or appended.
- It is the view of the Protector that the Revised SIP should be either amended or else appended to disclose to the Communities any policies or procedures which are not applicable to GFCT and to publish this amended Revised SIP within 60 days from the date of this letter.

(d) General Controls.

- During December 2010, GFCT repaid the full \$800,000 outstanding on a loan from GTS (which funds had been advanced primarily to fund the 2008 Eligible Projects), along with the remaining short-term payable to GTS, as noted above.
- In the process of arranging the funds to pay those debts, GFCT incurred a \$1.0 million short-term debt due to GTS in December 2010 when funds were mistakenly withdrawn from one of GTS' investment accounts and deposited to GFCT's cash account. Those funds were intended to have been withdrawn from one of GFCT's investment accounts. The Protector was advised by GFCT that the error was made by their investment advisor.
- In January 2011, \$1.0 million was converted to cash from one of GFCT's investment funds and held in their account until February 2011 when it was re-invested in the same fund. The Protector



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understands that those funds were intended to have been withdrawn from the account to repay the \$1.0 million short-term debt due to GTS incurred during December 2010, and that the error was the result of the investment advisor's misunderstanding of the instructions they received from GFCT.

- The short-term debt due to GTS was repaid to GTS on March 1, 2011 with \$1.0 million cash proceeds from the redemption of investments held by GFCT in another of its investment accounts.
- It is unclear what the financial impact to GFCT from these various transactions may have been.
- GTS and GFCT use the same investment advisors, have the same or similar investment portfolios and instructions to those investment advisors may be sent by the same person or persons for each of GTS and GFCT.
- Accordingly, the Protector is of the view that the Trustees should review their internal controls to ensure that they are sufficient to eliminate the possibility of communication errors with the investment advisors from re-occurring in the future.

PROTECTOR DETERMINATION

Pursuant to the Protector's review of the Reporting Material and its other inquiries, and as discussed above, the Protector has identified certain 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, these items had been largely resolved prior to the date of this letter, with the only outstanding issues being the requested amendments to the Revised SIP as well as receipt of confirmation that the Trustees have reviewed and are satisfied with the sufficiency of GFCT's internal controls. Consequently, the Protector does not believe that further action on its part is warranted at this time.

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, 2010.

Should you have any questions or concerns with respect to the foregoing, please do not hesitate to contact 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

Anthony Tillman
Senior Vice-President

Mark Kemp-Gee
Manager

cc Anthony Knox, Knox & Co.