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Attention: Peter Lantin, Chairperson

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Kristi Schmitz
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September 23, 2012

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, 2011. 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 March 31, 2011.

- An unsigned copy of the quarterly financial statements for the Fiscal Quarter ended March 31, 2011 was received by the Protector on May 4, 2011. A signed copy of these quarterly financial statements was not delivered to the Protector but was posted to the Website as at June 24, 2011.
- 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, 2011 was no later than April 30, 2011. Also, Section 34(b) of the Deed requires that the Quarterly Statements be delivered to the Protector.
- The Protector understands that the timelines imposed by the Deed in respect of the timing for preparing and delivering the Quarterly Statements to the Protector may be difficult for the Trustees to meet. Based on its discussions with the Trustees, the Protector is generally agreeable to allowing the Trustees a short additional period of time for preparing and delivering the signed Quarterly Statements to the Protector if they encounter difficulties in meeting the deadline imposed by the Deed, provided that the Trustees communicate any anticipated delay to the Protector with a reason for the delay and then deliver the signed Quarterly Statements to the Protector as soon as reasonably possible.
- In the case of the quarterly financial statements for the Fiscal Quarter ended March 31, 2011, the Protector was not advised of any delay in preparing the Quarterly Statements.

(b) Quarterly Statements in respect of the Fiscal Quarter ended June 30, 2011.

- The quarterly financial statements for the Fiscal Quarter ended June 30, 2011 were not delivered to the Protector; however, the Protector was advised by GFCT via email on August 2, 2011 that these quarterly financial statements had been published to the Website.
- 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, 2011 was no later than July 30, 2011. Also, Section 34(b) of the Deed requires that the Quarterly Statements be delivered to the Protector.
- As discussed above, the delay in delivery of these Quarterly Statements to the Protector may have been acceptable to the Protector if the Trustees had notified the Protector that they were unable to meet the July 30, 2011 due date.



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(c) Quarterly Statements in respect of the Fiscal Quarter ended September 30, 2011.

- An unsigned copy of the quarterly financial statements for the Fiscal Quarter ended September 30, 2011 was received by the Protector on October 27, 2011. A signed copy of these quarterly financial statements was not delivered to the Protector but was posted to the Website as at November 9, 2011.
- 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, 2011 was no later than October 30, 2011. Also, Section 34(b) of the Deed requires that the Quarterly Statements be delivered to the Protector.
- The delay in delivery of the signed copy of these Quarterly Statements to the Protector was acceptable to the Protector because the Trustees notified the Protector on October 27, 2011 that they may be unable to meet the October 30, 2011 due date on account of waiting for Trustee signatures. However, the signed Quarterly Statements should have been delivered directly to the Protector rather than only posting them to the Website.

(d) Financial Statements in respect of the Fiscal Year ended December 31, 2011.

- A draft version of the Financial Statements for the Fiscal Year ended December 31, 2011 was delivered to the Protector on February 13, 2012 and an unsigned revised version was delivered to the Protector on February 21, 2012. A signed copy of these financial statements was delivered to the Protector on February 27, 2012.
- 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, 2011 was no later than February 14, 2012.
- The Protector understands that the delay in delivery of the Financial Statements was, in part, attributable to minor revisions which were made to the draft set of Financial Statements which had been delivered to the Protector on February 13, 2012.

(e) Operations Report in respect of the Fiscal Year ended December 31, 2011.

- A draft version of the Operations Report for the Fiscal Year ended December 31, 2011 was delivered to the Protector on February 13, 2012.
- The Protector provided comments in respect of the draft Operations Report for the Fiscal Year ended December 31, 2011, as well as in respect of a subsequent draft.
- A finalized version of the Operations Report for the Fiscal Year ended December 31, 2011 was not delivered to the Protector. However, the Protector located this document on the Website on April 17, 2012.



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- 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, 2011 was no later than February 14, 2012. 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).

(f) Website Publishing of Reporting Material.

- The Reporting Material consisting of the quarterly financial statements for the Fiscal Quarter ended March 31, 2011 was delivered to the Protector on May 4, 2011 (unsigned) and was apparently posted to the Website as at June 24, 2011. The Operations Report for the Fiscal Year ended December 31, 2011 was not delivered to the Protector and was apparently posted to the Website as at April 17, 2012.
- 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. It is not apparent that the Operations Report was posted within this time frame.

(g) Investment Strategy.

- Further to discussion in the Protector's letter to the Trustees dated August 2, 2011, an unsigned amended Statement of Investment Policies and Procedures ("SIPP"), marked as "Revised May 21 2010" and in the name of GTS, was delivered to the Protector on February 17, 2011. The Protector was advised that this document was the current SIPP and that it would be published to the Website as soon as possible.
- On February 21, 2011, a signed but undated SIPP (the "2011 Revised SIPP"), still denoted as "Revised May 21 2010" but in the name of GFCT, was located on the Website by the Protector. The Protector engaged in discussions with the Trustees regarding the 2011 Revised SIPP, particularly in respect of certain policies and procedures contained within it which did not appear to be applicable to GFCT but instead only to GTS. Subsequent to those discussions, a further revised SIPP was located on the Website by the Protector on August 10, 2011.
- On February 21, 2012, the Protector was advised by the Trustees that the 2011 Revised SIPP as posted on the Website was not the correct SIPP. A different version (the "Replacement 2011 SIPP") of the 2011 Revised SIPP, still denoted as "Revised May 21 2010", was delivered to the Protector on this same date. This version was unsigned and undated and included content which varied from that which had been included in the three versions discussed above. In particular, the target asset mix for the investment of the Trust Property (the "Target Mix") contained in the Replacement 2011 SIPP reflects a planned shift from a higher proportion of investments in bonds and other fixed income instruments (as in the 2011 Revised SIPP) to equities.
- During the subsequent period from February to September 2012, the Protector engaged in numerous discussions with the Trustees, as well as GFCT's actuary and legal counsel, in order to both clarify which version of the SIPP was in effect for the Fiscal Year ended December 31, 2011 and also to address issues related to the adoption of a further amended SIPP.



- As a result of these discussions and enquiries, the Protector understands that the 2011 Revised SIPP was formally approved by the Trustees on February 19, 2011 and was therefore the SIPP in effect throughout the balance of the Fiscal Year ended December 31, 2011. The Replacement 2011 SIPP which was delivered to the Protector was not formally approved by the Trustees; however, a further revised SIPP (the “September 2012 SIPP”), based in large part on the Replacement 2011 SIPP and developed with the assistance of GFCT’s actuary, was ultimately approved by the Trustees on September 13, 2012 and published to the Website on or about September 18, 2012.
- 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 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. For the 2011 Fiscal Year, such investment strategy was required to have been published to the Website on or before January 1, 2011.
- Although the Protector obtained clarification as to the SIPP in effect during the Fiscal Year ended December 31, 2011, it is unclear which version of GFCT’s SIPP is being relied upon by its investment managers in making day to day investment recommendations. The Protector has discussed this matter with the Trustees and their advisors and understands that the Trustees will ensure that the September 2012 SIPP is delivered to GFCT’s investment managers and that they are instructed to comply with its terms.
- It is the view of the Protector that the continued monitoring of the GFCT’s investment managers’ compliance with SIPP terms is a significant issue which needs to be addressed by the Trustees as soon as possible. The Protector has discussed this with the Trustees and understands that they are working to make appropriate arrangements. While the Protector appreciates that the Trustees are dealing with certain issues which may delay the development and implementation of such a monitoring process, the Protector requests that the Trustees, within 90 days from the date of this letter, either provide documentation to the Protector confirming that such a monitoring process has been put in place or, if it has not, provide the Protector with a written update advising of the reason(s) for the delay.

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) General Controls.

- Certain internal control issues were discussed in the Protector’s letter to the Trustees dated August 2, 2011, primarily in respect of apparent communication errors with GFCT’s investment advisors. In December 2010, 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. 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; these funds were apparently intended to have



been withdrawn from the account to repay the \$1.0 million short-term debt due to GTS incurred during December 2010.

- During March 2011, GFCT issued a \$2.0 million cheque payable to a new investment manager when there was less than \$100,000 available in the bank account. There was a resulting overdraft in the account until funds were redeemed from one of GFCT's investment accounts and transferred into the bank account on April 7, 2011. Interest charges of approximately \$16,470 were charged to GFCT on account of the overdraft.
- GFCT advised the Protector that the error occurred as a result of a delay in transferring securities due to a reporting error with one of GFCT's investment managers. However, it is unclear why the cheque was issued prior to the funds being available in the bank account.
- The Protector understands that certain additional internal controls have been implemented by GFCT as a result of the errors from late 2010 and 2011 but the extent of these additional controls is unclear and it appears that GFCT does not have any documented internal control policies.
- The Protector continues to be 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. As this issue was raised in the Protector's August 11, 2011 letter to the Trustees and it remains unclear whether the current internal controls are adequate, the Trustees should confirm to the Protector within 60 days from the date of this letter that they have reviewed GFCT's internal controls and are satisfied that they are sufficient.

(b) Non-compliance with Terms of GFCT's SIPP.

- The Protector understands that the Trustees made certain investment re-allocations during 2011 which resulted in the actual investment mix in GFCT's portfolio not being in compliance with the terms of the 2011 Revised SIPP.
- The Protector recognizes that these re-allocations were consistent with the Target Asset Mix which the Trustees intended to formally adopt and which they ultimately adopted with the September 2012 SIPP. Thus, while GFCT's investments were not in compliance with its then current SIPP through much of 2011, this appears to have been by oversight. The Protector expects that this non-compliance continued until the September 2012 SIPP was approved.
- The Protector is of the view that the Trustees should ensure that the terms of the SIPP are complied with at all times. As discussed above (under "Investment Strategy"), the Trustees need to implement a program for routinely reviewing GFCT's investment portfolio to ensure it is in compliance with the terms of the SIPP.

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 resolved prior to the date of this letter. Consequently, the Protector does not believe that further action on its part 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, 2011.

However, the Protector asks that the Trustees, as requested above, provide the Protector with confirmation that they have reviewed and are satisfied with the sufficiency of GFCT's internal controls, as well as confirmation once an investment compliance monitoring program has been developed and implemented.

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 Tony Knox, KNOX & Co.