

Shirley

GWAI TRUST SOCIETY
FINANCIAL STATEMENTS
AS AT AUGUST 31, 2007

McAlpine
& Co. ^{CA}
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

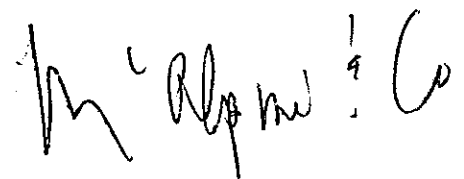
To the Members of the
Gwaii Trust Society

We have audited the statement of financial position of Gwaii Trust Society as at August 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the society's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the society as at August 31, 2007 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles. As required by the Society Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Terrace, B.C.
December 12, 2007



CHARTERED ACCOUNTANTS

GWAII TRUST SOCIETY

Statement Of Financial Position

As at August 31, 2007

| | 2007 | 2006 |
|---|---------------|---------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 881,074 | \$ 676,063 |
| Restricted cash - note 7 | 146,931 | 275,628 |
| Accounts receivable, trade and other | 27,681 | 21,283 |
| Investment income receivable | 378,758 | 419,143 |
| Prepaid expenses | 6,551 | 7,807 |
| | 1,440,995 | 1,399,924 |
| Property, plant and equipment - note 2 and note 3 | 35,431 | 29,651 |
| Long term investments - note 2 and note 4 | 71,874,870 | 69,179,740 |
| | \$ 73,351,296 | \$ 70,609,315 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 97,231 | \$ 85,024 |
| Program commitments - note 6 | 5,725,644 | 4,541,168 |
| Other liabilities - note 7 | 146,931 | 275,628 |
| | 5,969,806 | 4,901,820 |
| Net assets | | |
| Net assets invested in property, plant and equipment - note 8 | 35,431 | 29,650 |
| Restricted net assets - note 9 | 50,178,229 | 49,339,458 |
| Unrestricted net assets | 17,167,830 | 16,338,387 |
| | 67,381,490 | 65,707,495 |
| | \$ 73,351,296 | \$ 70,609,315 |

Signed on behalf of the board:

Director_____
Director

GWAII TRUST SOCIETY

Statement of Operations
Year ended August 31, 2007

| | Actual 2007 | Budget 2007 | Actual 2006 |
|---|----------------|----------------|----------------|
| Revenue | | | |
| Investment income - note 5 | \$ 7,198,562 | \$ | \$ 16,170,313 |
| Recovered costs | 10,794 | | 3,217 |
| | 7,209,356 | | 16,173,530 |
| Investment management expenses | | | |
| Actuary | 58,937 | 40,000 | 19,065 |
| Custodian fees | 69,151 | 55,000 | 66,005 |
| Investment administration fees | 405,117 | 180,000 | 168,676 |
| | 533,205 | 275,000 | 253,746 |
| Net investment earnings | 6,676,151 | | 15,919,784 |
| Administrative expenses | | | |
| Advertising and promotion | 8,428 | 27,000 | 15,476 |
| Bank charges and interest | 1,491 | 1,000 | 1,402 |
| Equipment rental | 8,518 | 10,000 | 7,901 |
| Honoraria | 76,422 | 60,000 | 72,213 |
| Insurance | 15,468 | 25,000 | 15,413 |
| Legal | 27,929 | 25,000 | 19,246 |
| Meetings and functions | 18,312 | 5,000 | 5,777 |
| Office, postage and miscellaneous | 6,918 | 18,000 | 7,713 |
| Professional fees | 13,236 | 12,000 | 10,994 |
| Rent and utilities | 16,302 | 15,000 | 18,481 |
| Repairs and maintenance | 518 | 5,000 | 3,323 |
| Supplies | 12,578 | 20,000 | 8,871 |
| Telecommunications | 13,704 | 10,000 | 12,990 |
| Training and board development | 2,857 | 40,000 | 6,795 |
| Travel | 30,430 | 10,000 | 36,799 |
| Vehicle expense | 12,518 | 8,000 | 8,354 |
| Wages and employee benefits | 124,816 | 124,000 | 124,376 |
| Amortization | 14,123 | | 9,648 |
| | 404,568 | 415,000 | 385,772 |
| Income from operations | 6,271,583 | | 15,534,012 |
| SMFRA administration recovery - note 7 | 92,544 | | 34,333 |
| Broadband project contribution | (93,094) | | |
| Operational surplus | 6,271,033 | | 15,568,345 |
| Grant inflation allocation - note 9 | 838,771 | | 1,014,817 |
| Net surplus available for program commitments | 5,432,262 | | 14,553,528 |
| Program commitments - note 10 | 4,597,038 | 4,620,000 | 4,074,641 |
| Net income for the year | \$ 835,224 | \$ | \$ 10,478,887 |

GWAII TRUST SOCIETY

Statement of Changes in Net Assets
Year ended August 31, 2007

| Net Assets | Invested in property, plant and equipment | Restricted | Unrestricted | 2007 | | 2006 | |
|---|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | | | | Total | Total | Total | Total |
| Balance - beginning of year | \$ 29,650 | \$ 49,339,458 | \$ 16,338,387 | \$ 65,707,495 | \$ 65,707,495 | \$ 54,213,791 | \$ 54,213,791 |
| Net income (loss) for the year | (14,123) | | 849,347 | 835,224 | 835,224 | 10,478,887 | 10,478,887 |
| Investment in property, plant and equipment - note 8 | 19,904 | | (19,904) | | | | |
| Grant inflation protection | | 838,771 | | 838,771 | 838,771 | 1,014,817 | 1,014,817 |
| Balance - end of year | \$ 35,431 | \$ 50,178,229 | \$ 17,167,830 | \$ 67,381,490 | \$ 67,381,490 | \$ 65,707,495 | \$ 65,707,495 |

GWAII TRUST SOCIETY

Statement of Cash Flows
Year ended August 31, 2007

| | 2007 | 2006 |
|--|--------------|---------------|
| Operating activities | | |
| Net income for the year | \$ 835,224 | \$ 10,478,887 |
| Items not involving cash: | | |
| - grant inflation allocation | 838,771 | 1,014,817 |
| - amortization | 14,123 | 9,648 |
| | 1,688,118 | 11,503,352 |
| Cash provided by changes in non-cash working capital items - note 11 | 47,450 | 65,747 |
| | 1,735,568 | 11,569,099 |
| Financing activities | | |
| Increase (decrease) in amount held for SMFRA and Gwail Tel Society | (128,697) | 145,364 |
| Increase in net program commitments | 1,184,476 | 448,613 |
| | 1,055,779 | 593,977 |
| Investing activities | | |
| Net change in investments | (2,695,130) | (11,458,356) |
| Purchase of property, plant and equipment | (19,903) | (10,911) |
| | (2,715,033) | (11,469,267) |
| Increase during the year | 76,314 | 693,809 |
| Cash - beginning of year | 951,691 | 257,882 |
| Cash - end of year | \$ 1,028,005 | \$ 951,691 |
| Cash represented by: | | |
| Cash | \$ 881,074 | \$ 676,063 |
| Restricted cash | 146,931 | 275,628 |
| | \$ 1,028,005 | \$ 951,691 |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

1. Purpose of the organization

The Gwaii Trust Society was incorporated on September 16, 1994 under the Society Act of British Columbia. The Society was established to advise and assist, economically and socially, the communities of Haida Gwaii/Queen Charlotte Islands. The Federal government awarded the Society a grant of \$38.2 million in 1995 to assist the Society to achieve these objectives.

The Society is a non-profit organization under the Income Tax Act and accordingly is exempt from income taxes.

2. Significant accounting policies

(a) Basis of accounting

The Gwaii Trust Society 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.

(b) 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.

(c) Investments

Trading investments, comprising of Canadian treasury bills and certain bond issues, are purchased for resale over a short period of time. These are stated at the lower of cost and market value determined on a portfolio basis.

Portfolio investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Mortgages and equities are stated at cost while bonds are stated at amortized cost. Premiums and discounts on bond purchases are amortized using the straight line basis over the period to maturity of the related bond. Gains and losses on disposal of securities are calculated on an average cost basis.

Investment carrying values are adjusted to market value only where a permanent decline in value has occurred.

(d) Property, plant and equipment

Property, plant and equipment items are recorded at cost and amortization is calculated annually, using the following rates and methods:

| | |
|------------------------|-----------------------|
| Computer equipment | 30% declining balance |
| Furniture and fixtures | 20% declining balance |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

3. Property, plant and equipment

| | 2007 | | 2006 | |
|------------------------|------------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Computer equipment | \$ 114,857 | \$ 85,370 | \$ 29,487 | \$ 24,597 |
| Furniture and fixtures | 15,519 | 9,576 | 5,943 | 5,054 |
| | \$ 130,376 | \$ 94,946 | \$ 35,430 | \$ 29,651 |

4. Investments

| | 2007 | | 2006 | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | Cost | Market | Cost | Market |
| Treasury bills | | | | |
| • Trading | \$ 468,490 | \$ 468,490 | \$ 274,563 | \$ 274,563 |
| Federal bonds | | | | |
| • Trading | 17,211,495 | 18,108,158 | 14,616,875 | 14,844,606 |
| • Portfolio | | | 5,449,600 | 8,444,859 |
| Provincial bonds | | | | |
| • Trading | 7,722,882 | 7,674,062 | 3,718,575 | 3,848,906 |
| • Portfolio | 585,525 | 649,221 | 1,813,711 | 2,091,689 |
| Corporate bonds | 13,861,091 | 13,167,652 | 12,615,525 | 12,315,127 |
| Mortgages | 4,733,678 | 4,758,411 | 4,973,818 | 5,060,751 |
| Equities | 7,133,768 | 9,889,284 | 6,546,140 | 10,294,559 |
| International equities - note 5 | 20,193,465 | 22,310,000 | 19,400,000 | 19,626,333 |
| | 71,910,394 | 77,025,278 | 69,408,807 | 76,801,393 |
| Less bond amortization | 35,524 | | 229,067 | |
| | \$ 71,874,870 | \$ 77,025,278 | \$ 69,179,740 | \$ 76,801,393 |

Summary of investments

| | 2007 | | 2006 | |
|-----------|---------------|---------------|---------------|---------------|
| | Cost | Market | Cost | Market |
| Trading | \$ 25,402,867 | \$ 26,250,710 | \$ 18,610,013 | \$ 18,968,075 |
| Portfolio | 46,472,003 | 50,774,568 | 50,569,727 | 57,833,318 |
| | \$ 71,874,870 | \$ 77,025,278 | \$ 69,179,740 | \$ 76,801,393 |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

5. Investment income

| | 2007 | 2006 |
|---------------------------------|---------------------|----------------------|
| Interest received and accrued | \$ 2,885,186 | \$ 2,494,450 |
| Dividends received and accrued | 323,162 | 460,309 |
| Gain on disposal of investments | 3,990,214 | 13,215,554 |
| | <u>\$ 7,198,562</u> | <u>\$ 16,170,313</u> |

During the prior year, the Gwaii Trust realigned the investment portfolio to take advantage of new investment opportunities. In order to accomplish this, certain securities were sold and the proceeds reinvested in international markets. The gains realized on the sale of these securities had accrued over the time since the inception of the Fund and are not directly attributed to market activity during the current year. While the realignment of the portfolio resulted in a significant increase in the historical cost of the portfolio, there was no immediate affect on the market value.

6. Program commitments

The Gwaii Trust funds projects that are in general agreement with its aims and objectives. The balance outstanding represents projects approved by the Board which were not completed as at the fiscal year end.

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Committed balance - beginning of year | \$ 4,541,168 | \$ 4,092,556 |
| Current project allocations - note 10 | 4,597,038 | 4,091,174 |
| | 9,138,206 | 8,183,730 |
| Less project costs paid during the year | 3,412,562 | 3,684,574 |
| Current project decommitments and adjustments | | (42,012) |
| Committed balance - end of year | <u>\$ 5,725,644</u> | <u>\$ 4,541,168</u> |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

7. Other liabilities and restricted cash

- i) The Gwaii Trust Society has entered into an agreement with the Province of British Columbia to act as the Administrator of the South Moresby Forest Replacement Account (SMFRA) program. SMFRA was established through a joint initiative of the Government of Canada and the Province of British Columbia. The purpose of the fund is to enhance the stability of the Islands forest resources. The balance at the end of the fiscal year represents the cash balance of funds transferred to the Gwaii Trust from the Province less project payments approved by the SMFRA Interim Management Committee.

The cash balance is restricted to payments for approved projects and administration fees as set out in the Program Administration Agreement.

| | 2007 | 2006 |
|---|-------------------|-------------------|
| Current year transfers | \$ 512,360 | \$ 788,920 |
| Approved expenditures | | |
| Net project costs paid during the year | 375,523 | 532,809 |
| Administration expenses | 273,562 | 110,747 |
| Administration expenses refunded to Gwaii Trust | 92,544 | |
| | <u>741,629</u> | <u>643,556</u> |
| Transfers less expenditures | (229,269) | 145,364 |
| Balance - beginning of year | 275,628 | 130,264 |
| Restricted cash balance - end of year | <u>46,359</u> | <u>275,628</u> |
| ii) Broadband project funding held on behalf of Gwaii Tel Society | 100,572 | |
| Total | <u>\$ 146,931</u> | <u>\$ 275,628</u> |

8. Net assets invested in property, plant and equipment

Net assets invested in property, plant and equipment is calculated as follows:

| | 2007 | 2006 |
|---|------------------|------------------|
| Unamortized balance - beginning of year | \$ 29,650 | \$ 28,388 |
| Property, plant and equipment purchased during year - net | 19,904 | 10,910 |
| Amortization expense | (14,123) | (9,648) |
| Unamortized balance - end of year | <u>\$ 35,431</u> | <u>\$ 29,650</u> |

GWAII TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

9. Restricted net assets

The Gwaii Trust Society Investment Fund represents the initial endowment of \$38,200,000 received from the Government of Canada. 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 Pricing Index (CPI). The change in the CPI for the current year is 1.7% (2006 - 2.1%).

10. Program commitments

Program commitment allocations for the year were as follows:

| | 2007 | |
|----------------------------------|--------------|--------------|
| | Actual | Budget |
| New Legacy | \$ 365,889 | \$ 350,000 |
| Major Contributions | 1,644,807 | 1,500,000 |
| Healthy Humans | 300,000 | 300,000 |
| Culture as it Relates to Tourism | 362,000 | 350,000 |
| Arts Program | 60,356 | 70,000 |
| Christmas Allocation | 60,000 | 60,000 |
| Education Programs | 464,078 | 500,000 |
| Haida Parity Allocation | 839,908 | 840,000 |
| Contingency | | 150,000 |
| Broadband Project | 500,000 | 500,000 |
| | \$ 4,597,038 | \$ 4,620,000 |

11. Statement of cash flows

| | 2007 | 2006 |
|---|------------|-------------|
| Cash provided (used) by changes in the following: | | |
| Accounts receivable | \$ (6,398) | \$ (20,039) |
| Prepaid expenses | 1,256 | 720 |
| Accounts and wages payable | 12,207 | 4,974 |
| Investment income receivable | 40,385 | 80,092 |
| | \$ 47,450 | \$ 65,747 |

GWAIL TRUST SOCIETY

Notes to Financial Statements
Year ended August 31, 2007

12. Financial instruments

The Society's financial instruments consist of cash, accounts receivable, long-term investments, accounts payable and other liabilities. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

13. Measurement uncertainty

These financial statements have been prepared in accordance with accounting practices generally accepted in Canada. In preparing these financial statements management has made estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.