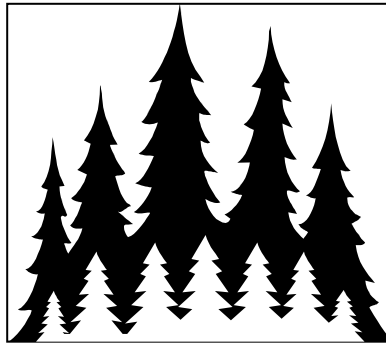


# **The BC Forestry Revitalization Trust II**



**December 31, 2008  
Annual Report**

**Trustee  
Eric van Soeren**

# **BC Forestry Revitalization Trust II**

## **Report of the Trustee**

In March 2003 the province of British Columbia established the BC Forestry Revitalization Trust (BCFRT) and funded it with \$75,000,000. The mandate of the BCFRT was to provide mitigation to forest workers and replaceable contractors that were negatively impacted by timber reallocations resulting from the Forestry Revitalization Act.

In April 2004 the province appointed Eric van Soeren as Trustee. Shortly after that he appointed a seven member Advisory Board, as required by the Trust Deed. Advisory Board membership as of December 31, 2008 was as follows:

John Allan, Board Member representing the Council of Forest Industries

Jim Girvan, Board Member representing the Truck Loggers Association

Monty Mearnes, Board Member representing the United Steelworkers of America – IWA Council

Tim Menning, Board Member representing the Interior Logging Association, the Central Interior Loggers Association and the North West Logging Association

David Morel, Board Member representing the Ministry of Forests and Range

Darrel Wong, Board Member representing the United Steelworkers of America – IWA Council

Rick Jeffrey, Board Member representing the Coast Forest Products Association

During 2004 the Advisory Board developed draft forest worker and contractor mitigation guidelines. In order to develop an estimate of the cost of those guidelines, the Trustee polled all the major licensees that were to lose some of their allowable annual cut. They were asked to provide their best estimate of the effect of the timber reallocation on their workers, their contractors, and their contractors' workers. The Trustee received a 100% response rate from Coastal licensees, and a 90% response rate in the Interior. The main reason for the lower response in the Interior was the lack of a response from New Skeena, which was involved in bankruptcy proceedings.

Utilizing the best estimates of industry, seniority estimates obtained from the IWA pension plan, seniority estimates obtained from contractor industry associations, and the proposed guidelines, the Trustee arrived at an estimated cost of delivering the proposed guidelines. Based on that estimate, the Trustee determined that the BCFRT required approximately \$50,000,000 more than what was available in the BCFRT accounts as of December 31, 2004, plus what the BCFRT would likely earn in interest while holding mitigation funds in trust.

The Trustee and the Advisory Board approached the province to attempt to get sufficient extra funds to allow the draft mitigation guidelines to be finalized. On January 21, 2005 the Premier made a public commitment to ask the BC Legislature to approve the required extra \$50,000,000. On February 22, 2005 the legislature approved the request. Of that amount, \$40,000,000 was transferred to the BCFRT, and \$10,000,000 was held back by the Ministry of Forests and Range pending confirmation that the funds will be required. Therefore, the draft guidelines were finalized.

## **Termination of the BC Forestry Revitalization Trust**

Pursuant to the Deed of Trust, the BCFRT terminated on March 31, 2008, and the Trustee had two years to transfer any amounts remaining at that time to a person, organization or association whose objectives were compatible with the distribution objectives of the BCFRT. However, approximately 50 contractors and an unknown number of employees still needed to be dealt with. Of those, mitigation for 14 replaceable contractors could not be resolved yet because the Forestry Revitalization Proposal that related to them was being disputed and was before the courts. Several of the other replaceable contractors were either having difficulty obtaining the information required to value their claim, disputed the amounts they would receive based on the Contractor Mitigation Guidelines, or simply had not applied yet for themselves or their ex-employees.

Therefore, at the direction of the BCFRT Advisory Board, all the assets, liabilities and ongoing commitments of the BCFRT were transferred to the BC Forestry Revitalization Trust II (BCFRT II) as at April 30, 2008. The BCFRT II has similar guidelines and beneficiaries as the BCFRT. The BCFRT II will be administered by the BCFRT Trustee with the assistance of the same Advisory Board. The main differences are that the BCFRT II has no set termination date, and the Trustee and Advisory Board have been given the ability to expand the potential beneficiaries to include forestry workers and replaceable contractors that have been affected by provincial government land use decisions other than just the Forestry Revitalization Act.

### **Administration Account**

When the BCFRT II was created, \$4.6 million was allocated to administration. To date, administration expenses of the BCFRT II have been slightly more than the interest earned by the Administration Account, so the initial principal has only been reduced to \$4.5 million.

### **Contractor Mitigation Account**

The principle used for contractor mitigation is that contractors who lose their replaceable contracts as a result of Forestry Revitalization Act (FRA) timber reallocation will receive mitigation that approximates what the contract might reasonably have been worth at the time it was reduced or eliminated. Generally, this is based on a per cubic metre value, but contracts that were calculated based on some other measure are treated accordingly. A detailed description of the calculation to be used is in the Contractor Mitigation Guidelines, which can be found by following the links to Contractor Mitigation Guidelines on the BCFRT website at [www.bcftr.com](http://www.bcftr.com).

As of December 31, 2008, the holders of 295 replaceable contracts had been partially or completely compensated for the loss of their replaceable contractual rights. Total contractor compensation paid out as of December 31, 2008 was \$65,626,210.

### **Forest Worker Mitigation Account**

The principle used for forest worker mitigation is that workers who were severed because of FRA timber reallocation will receive severance paid to them by their employer, but funded by the BCFRT II. The Advisory Board felt it was fair that all employees of licensees and replaceable contractors who lost their jobs as a result of FRA timber reallocation should be treated the same. Because the Steelworkers (previously IWA) contract mandates that employees affected by a permanent logging camp closure receive severance of 10 regular days pay per year of service, plus 10/12<sup>ths</sup> of a regular day's pay per completed month of service, that standard was used. The detailed calculation and discussion appears in the Forest Worker Mitigation Guidelines, which can be found by following the links to Forest Worker Mitigation Guidelines on the BCFRT II website at [www.bcftr.com](http://www.bcftr.com).

As of December 31, 2008, severance payments had been made to 827 forest workers, at a total cost to the BCFRT of \$41,520,101.

### **Mitigation Payments - General**

Significant mitigation payments have been made as of December 31, 2008. Based on the Forestry Revitalization Proposals (FRPs) and related mitigation applications received to date, it is clear that contractor mitigation costs and employee mitigation costs per severed employee are higher than originally expected. However, the total number of severed employees is significantly lower than originally expected. A combination of reasonable investment returns, lower than expected administration costs, and lower than expected total severance costs have more than compensated for higher than expected contractor mitigation costs.

It appears there may be approximately \$9 to \$10 million more in the three BCFRT II accounts than will be required to satisfy the expected expenses and known or expected mitigation claims. As a result, the Trustee and the Advisory Board will work to develop guidelines that will allow for mitigation of an expanded range of provincial government land use decisions that affect access to forest resources. As at December 31, 2008, no expanded guidelines have been developed.

**THE BC FORESTRY REVITALIZATION TRUST II**  
**FINANCIAL STATEMENTS**  
**AS AT DECEMBER 31, 2008**

**THE BC FORESTRY REVITALIZATION TRUST II**  
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Exhibit A

To the Trustee  
**The BC Forestry Revitalization Trust II**

**AUDITORS' REPORT**

We have audited the statement of financial position of The BC Forestry Revitalization Trust II as at December 31, 2008, and the statements of receipts and expenditures and net assets for the period then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements.

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 the Trustee, 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 Trust as at December 31, 2008 and its receipts and expenditures for the period then ended in accordance with Canadian generally accepted accounting principles.

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**CHARTERED ACCOUNTANTS**

Vancouver, B.C.  
February 12, 2009

**THE BC FORESTRY REVITALIZATION TRUST II**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash - note 5	\$ 671,440
Marketable securities - at cost - Schedule 1	16,114,151
Interest receivable	<u>160,024</u>

**TOTAL ASSETS** **\$ 16,945,615**

**LIABILITIES**

**CURRENT LIABILITY**

Accounts payable and accrued liabilities	<u>\$ 39,800</u>
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**TOTAL LIABILITIES** **39,800**

**FUND BALANCES**

**NET ASSETS**

Administration Fund - Schedule 2	4,530,685
Contractor Mitigation Fund - Schedule 2	6,406,539
Forest Worker Mitigation Fund - Schedule 2	<u>5,968,591</u>

**TOTAL NET ASSETS** **16,905,815**

**TOTAL LIABILITIES AND NET ASSETS** **\$ 16,945,615**

**APPROVED BY THE TRUSTEE**

\_\_\_\_\_ Trustee

*The accompanying notes are an integral part of these financial statements.*



**THE BC FORESTRY REVITALIZATION TRUST II**  
**STATEMENT OF NET ASSETS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

<b>EXCESS OF RECEIPTS OVER EXPENDITURES</b>	<b><u>\$ 241,061</u></b>
<b>NON-OPERATING TRANSACTIONS</b>	
Transfer from the BC Forestry Revitalization Trust	20,762,385
Disbursements to beneficiaries	(4,097,631)
	16,664,754
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b><u>-</u></b>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 16,905,815</u></b>

*The accompanying notes are an integral part of these financial statements.*

**THE BC FORESTRY REVITALIZATION TRUST II**  
**STATEMENT OF RECEIPTS AND EXPENDITURES**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<u>Total</u>
<b>INTEREST RECEIPTS - note 4(b)</b>	\$ 99,259	\$ 166,778	\$ 123,439	\$ 389,476
<b>EXPENDITURES - note 4(c)</b>				
Audit fees	13,500	-	-	13,500
Bank charges and interest	200	500	305	1,005
GST expense	6,989	-	-	6,989
Legal fees	1,598	-	-	1,598
Office	42	-	-	42
Project analysis	35,759	-	-	35,759
Travel and entertainment	816	-	-	816
Trustee fees	88,706	-	-	88,706
	<u>147,610</u>	<u>500</u>	<u>305</u>	<u>148,415</u>
<b>EXCESS OF RECEIPTS OVER EXPENDITURES</b>	<u>\$ (48,351)</u>	<u>\$ 166,278</u>	<u>\$ 123,134</u>	<u>\$ 241,061</u>

*The accompanying notes are an integral part of these financial statements.*

**THE BC FORESTRY REVITALIZATION TRUST II**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

**1. PURPOSE OF THE TRUST**

The BC Forestry Revitalization Trust II (the "Trust") was established by Declaration of Trust dated February 28, 2008.

On April 30, 2008, all assets and liabilities, contingent and otherwise, of the predecessor trust, the BC Forestry Revitalization Trust (the "Predecessor Trust") were transferred to the Trust.

The Predecessor Trust was established by Deed of Trust dated March 17, 2003 (the "First Trust Deed"). Pursuant to Bill 28-2003, the *Forestry Revitalization Act*, the Ministry of Forests of the Province of British Columbia made a payment of \$75,000,000 to settle the Predecessor Trust (the "First Payment"). On February 22, 2005, the Government of the Province of British Columbia passed legislation to make an additional contribution of \$50,000,000 to the Predecessor Trust (the "Second Payment"), to increase the funds available for distribution to \$125,000,000. A portion of \$40,000,000 of the second payment was received during a prior year. The remaining amount was held by the Government of the Province of British Columbia until such a time as the Predecessor Trust required the funds. It is uncertain whether the remaining amount will be available to the Trust.

The funds are to be used to mitigate adverse financial impacts suffered by certain forest workers and replaceable contractors as a result of restructuring of the forestry sector and harvesting operations within British Columbia, arising out of reductions under the *Forestry Revitalization Act* of harvesting rights available to licensees under the *Forest Act*.

**2. BENEFICIARIES OF THE TRUST**

The beneficiaries of the Trust are:

- (a) certain workers (unemployed forestry workers and retraining forestry workers as defined in subparagraph 2.02(2)(a) and (b) of the First Trust Deed); and
- (b) certain contractors (as defined in subparagraph 2.02(2)(c) of the First Trust Deed) who hold a replaceable contract within the meaning of the *Timber Harvesting Contract and Subcontract Regulation* of the *Forest Act*.

The Declaration of Trust dated February 28, 2008 enables the Trustee to expand the definition of beneficiaries of the Trust to include other forestry workers who were negatively affected by government decisions. At this time, the beneficiaries of the Trust are the same as the beneficiaries of the Predecessor Trust.

**3. DURATION OF THE TRUST**

The Trust will terminate on any date on which there is no remaining Trust property.

**THE BC FORESTRY REVITALIZATION TRUST II**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

**4. SIGNIFICANT ACCOUNTING POLICIES**

(a) Fund Accounting

The Trust employs fund accounting, using the accrual method of accounting for transactions. The Trust's assets are subject to the restrictions contained in the Declaration of Trust (the "Declaration") and are to be used only for the specified purposes. The Trust comprises the following funds:

(i) Administration Fund

In accordance with the Declaration, the amount in the Administration Fund of the Predecessor Trust was transferred to the Administration Fund of the Trust. The funds are to be used to meet administration expenses for the duration of the Trust.

Pursuant to recommendations by the Advisory Board, the Trustee may transfer funds from time to time from the Administration Fund to the other two funds to the extent that the transferred amounts are in excess of anticipated administrative expenses of the Trust. Any such transfers cannot be reversed.

(ii) Contractor Mitigation Fund

In accordance with the Declaration, the amount in the Contractor Mitigation Fund of the Predecessor Trust was transferred to the Contractor Mitigation Fund of the Trust.

This fund is to be used to provide mitigation to certain replaceable contractors for reductions in their contract volumes resulting from the reduction in the harvesting rights of certain licensees under the *Forestry Revitalization Act*;

Pursuant to recommendations by the Advisory Board, the Trustee may transfer funds from time to time between the Contractor Mitigation Fund and the Forest Worker Mitigation Fund.

(iii) Forest Worker Mitigation Fund

In accordance with the Declaration, the amount in the Forest Worker Mitigation Fund of the Predecessor Trust was transferred to the Forest Worker Mitigation Fund of the Trust.

This fund is to be used to provide mitigation to certain forestry workers who ceased to be employed by certain licensees or replaceable contractors as a result of reductions in the harvesting rights of certain licensees under the *Forestry Revitalization Act*.

Pursuant to recommendations by the Advisory Board, the Trustee may transfer funds from time to time between the Contractor Mitigation Fund and the Forest Worker Mitigation Fund.

**THE BC FORESTRY REVITALIZATION TRUST II**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

4. **SIGNIFICANT ACCOUNTING POLICIES, *cont'd***

(b) Revenue Recognition and Allocation

Investment income is recorded as received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

All income earned in respect of funds held in a mitigation fund shall be income of that mitigation fund and form part of the capital of that fund.

All income earned in any fiscal year in respect of funds held in the Administration Fund (net of any applicable taxes) will first be used to pay administrative expenses for the fiscal year. The remainder, if any, shall be added to the other two funds on a pro-rata basis as defined in the Trust Deed.

(c) Expenditures Allocation

In accordance with the Trust Deed, all expenditures are to be paid out of the Administration Fund.

(d) Use of Assumptions and Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on the Trustee's knowledge of current events and actions the Trust may undertake in the future, actual results may differ from the estimates.

5. **STATEMENT OF CASH FLOWS**

These financial statements do not include a statement of cash flows as the information is readily available from the financial statements, and would not provide additional useful information.

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<b>2008 Total</b>
Cash	<u>\$ 4,819</u>	<u>\$ 659,694</u>	<u>\$ 6,927</u>	<u>\$ 671,440</u>

**THE BC FORESTRY REVITALIZATION TRUST II**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

**6. INCOME TAXES**

The Trustee is of the opinion that the Trust is either a non-profit organization for income tax purposes or a public body performing a function of government. Under either definition, the Trust's income would not be subject to income taxes.

During a prior year, an appeals officer of the Canada Revenue Agency (the "CRA") requested certain information regarding the purpose of the Predecessor Trust and indicated verbally that she concurred with the Trustee's opinion. During the year, the Trustee received a notice of assessment confirming that the Predecessor Trust is not subject to Income Taxes.

**7. GOODS AND SERVICES TAXES**

The Trustee has received advice from the CRA that the Trust will not be able to recover any Input Tax Credits.

**8. FAIR VALUE AND CREDIT RISK**

The carrying value of investments and liabilities reflected in the balance sheet approximate their respective fair values. The Trust does not have a significant concentration of credit risk.

**9. COMMITMENTS**

In accordance with the Declaration, all funds must be disbursed to beneficiaries pursuant to the purpose of the Trust and the guidelines prepared by the Trustee and approved by the Advisory Board. No amounts may be transferred to the Government of the Province of British Columbia.

**10. SUFFICIENCY OF FUNDS**

During a prior year, the Trustee and Advisory Board developed Forest Worker Mitigation Guidelines and Contractor Mitigation Guidelines. Based on those guidelines the Trustee regularly updates calculations of the expected amounts required to make mitigation payments to eligible workers and replaceable contractors in accordance with the purpose of the Trust. These calculations are based on certain assumptions and on information and estimates provided by affected licensees and contractors.

The Trustee is satisfied that the funds currently available will permit the Trust to fulfill its expected obligations under the Forest Worker and Contractor Mitigation Guidelines, without the need to draw down on the last \$10,000,000 of the Second Payment.

**THE BC FORESTRY REVITALIZATION TRUST II**  
**SCHEDULE OF MARKETABLE SECURITIES**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<u>Total</u>
Government of Canada Treasury Bill Face Value \$1,000,000 Due April 16, 2009	\$ -	\$ -	\$ 986,722	<b>\$ 986,722</b>
Res Export Development Face Value \$600,000 Due February 9, 2009	-	-	589,654	<b>589,654</b>
Res Province of Manitoba Face Value \$1,042,200 Due March 2, 2009	-	-	1,021,985	<b>1,021,985</b>
PRN Province of Quebec Face Value \$678,820+\$746,400+\$1,179,940 Due June 1, 2009	739,999	1,169,993	672,998	<b>2,582,990</b>
CPN Province of Ontario Face Value \$504,243 Due June 2, 2009	-	-	491,999	<b>491,999</b>
Res Canada Housing Trust Face Value \$1,212,300+\$1,619,900 Due September 15, 2009	-	1,579,885	1,182,354	<b>2,762,239</b>
HSBC Bank Canada Investment Certificate Face Value \$481,000 Due October 8, 2009	-	-	481,000	<b>481,000</b>

*The accompanying notes are an integral part of these financial statements.*

**THE BC FORESTRY REVITALIZATION TRUST II**  
**SCHEDULE OF MARKETABLE SECURITIES**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<b><u>Total</u></b>
<i>carried forward</i>	739,999	2,749,878	5,426,712	<b>8,916,589</b>
National Bank of Canada Investment Certificate Face Value \$481,000 Due October 8, 2009	-	-	481,000	<b>481,000</b>
CIBC BA Face Value \$100,000 Due January 8, 2009	99,810	-	-	<b>99,810</b>
National Bank of Canada Investment Certificate Face Value \$1,000,000 Due May 29, 2009	1,000,000	-	-	<b>1,000,000</b>
Laurentian Bank of Canada Investment Certificate Face Value \$1,110,000 Due September 16, 2009	1,110,000	-	-	<b>1,110,000</b>
Royal Bank of Canada BA Face Value \$1,625,000 Due September 28, 2009	1,572,348	-	-	<b>1,572,348</b>
CIBC Full Service Investment Certificate Face Value \$801,400 Due March 2, 2009	-	801,400	-	<b>801,400</b>

*The accompanying notes are an integral part of these financial statements.*



**THE BC FORESTRY REVITALIZATION TRUST II**  
**SCHEDULE OF MARKETABLE SECURITIES**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<u>Total</u>
<i>carried forward</i>	4,522,157	3,551,278	5,907,712	<b>13,981,147</b>
Res Province of Manitoba Face Value \$449,400 Due March 2, 2009	-	440,684	-	<b>440,684</b>
Res Canada Housing Trust Face Value \$510,800 Due March 15, 2009	-	502,820	-	<b>502,820</b>
HSBC Bank Canada Investment Certificate Face Value \$800,000 Due April 24, 2009	-	800,000	-	<b>800,000</b>
HSBC Bank Canada Investment Certificate Face Value \$389,500 Due September 4, 2009	-	389,500	-	<b>389,500</b>
<b>MARKETABLE SECURITIES</b>	<u>\$ 4,522,157</u>	<u>\$ 5,684,282</u>	<u>\$ 5,907,712</u>	<u><b>\$ 16,114,151</b></u>

*The accompanying notes are an integral part of these financial statements.*

**THE BC FORESTRY REVITALIZATION TRUST II**  
**SCHEDULE OF FUNDS**  
**FOR THE PERIOD ENDED DECEMBER 31, 2008**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<b><u>Total</u></b>
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -
Transfer from BC FRT	4,579,036	9,363,766	6,819,583	<b>20,762,385</b>
Disbursements to beneficiaries	-	(3,123,505)	(974,126)	<b>(4,097,631)</b>
Excess of receipts over expenditures	<u>(48,351)</u>	<u>166,278</u>	<u>123,134</u>	<b><u>241,061</u></b>
Balance, end of period	<b><u>\$ 4,530,685</u></b>	<b><u>\$ 6,406,539</u></b>	<b><u>\$ 5,968,591</u></b>	<b><u>\$ 16,905,815</u></b>

*The accompanying notes are an integral part of these financial statements.*