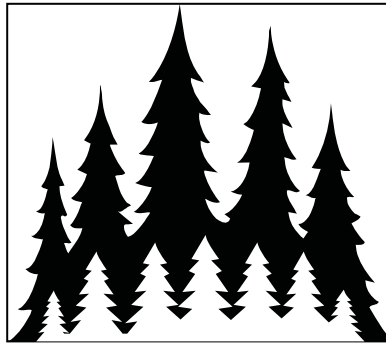


The BC Forestry Revitalization Trust II



**December 31, 2010
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, 2010 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

Tom Jensen, Board Member representing the Ministry of Forests, Mines and Lands

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) during April 2008. The BCFRT II has similar guidelines and beneficiaries as the BCFRT. The BCFRT II is administered by the BCFRT Trustee with the assistance of the same Advisory Board structure. Only one Board member, the Provincial Government Representative, has changed. 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 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.

As of December 31, 2010, the holders of 316 replaceable contracts had been partially or completely compensated for the loss of their replaceable contractual rights. Total contractor compensation paid out was \$70,638,918.

Forest Worker Mitigation Account

The principle used for forest worker mitigation was that workers who were severed because of FRA timber reallocation received 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 10/12th 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.bcfirt.com.

As of December 31, 2010, severance payments had been made to 848 forest workers, at a total cost to the BCFRT of \$43,079,279.

Mitigation Payments - General

As of December 31, 2010, most of the FRA related Contractor and all of the FRA related Forest Worker mitigation has been completed, with less than \$1.0 million in potential FRA related mitigation payments remaining outstanding based on the current guidelines. In addition, there is an outstanding commitment to pay up to \$250,000 of the legal costs incurred in a planned test case in the legal challenge of the Canada Revenue Agency's ruling that contractor mitigation payments are taxable. It is the view of the contractors and the Province of British Columbia that these amounts should not have been subject to income taxes.

After taking the above outstanding liabilities into account, it appears there may be approximately \$9 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 consider other applications for worker or contractor mitigation related to Provincial Government Land Use decisions, and will consider options for other ways that the BCFRT II might be able to assist the contractors with their potential income tax liability related to previous mitigation payments.

As at December 31, 2010, no new applications have been considered by the Advisory Board, but proposals have been received from two licensees in Haida Gwaii and will be considered in the first quarter of 2011.

THE BC FORESTRY REVITALIZATION TRUST II
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

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, 2010, and the statements of receipts and expenditures and net assets for the year 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, 2010 and its receipts and expenditures for the year then ended in accordance with Canadian generally accepted accounting principles.



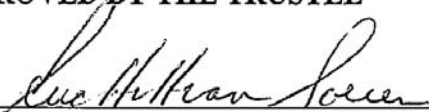
CHARTERED ACCOUNTANTS

Vancouver, B.C.
February 15, 2011

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash - note 6	\$ 6,619	\$ 36,344
Marketable securities - at cost - Schedule 1	5,740,894	8,153,338
Interest receivable	<u>119,460</u>	<u>65,424</u>
	5,866,973	8,255,106
INVESTMENTS, at cost - Schedule 2	<u>4,680,011</u>	<u>3,893,257</u>
TOTAL ASSETS	<u>\$ 10,546,984</u>	<u>\$ 12,148,363</u>
<u>LIABILITIES</u>		
CURRENT LIABILITY		
Accounts payable and accrued liabilities	<u>\$ 13,918</u>	<u>\$ 15,491</u>
TOTAL LIABILITIES	<u>13,918</u>	<u>15,491</u>
<u>FUND BALANCES</u>		
NET ASSETS		
Administration Fund - Schedule 3	4,458,995	4,510,180
Contractor Mitigation Fund - Schedule 3	1,503,374	2,916,401
Forest Worker Mitigation Fund - Schedule 3	<u>4,570,697</u>	<u>4,706,291</u>
TOTAL NET ASSETS	<u>10,533,066</u>	<u>12,132,872</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,546,984</u>	<u>\$ 12,148,363</u>

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 YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
EXCESS OF RECEIPTS OVER EXPENDITURES	\$ 33,826	\$ 165,130
NON-OPERATING TRANSACTIONS		
Disbursements to beneficiaries	(1,633,632)	(4,938,073)
NET ASSETS AT BEGINNING OF YEAR	<u>12,132,872</u>	<u>16,905,815</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,533,066</u>	<u>\$ 12,132,872</u>

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

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	<u>2010 Total</u>	<u>2009 Total</u>
INTEREST RECEIPTS - note 4(b)	\$ 58,822	\$ 23,560	\$ 62,016	\$ 144,398	\$ 286,697
EXPENDITURES - note 4(c)					
Audit fees	11,575	-	-	11,575	16,050
Bank charges and interest	200	350	215	765	865
GST/HST expense	8,117	-	-	8,117	5,709
Legal fees	2,385	-	-	2,385	1,153
Office	64	-	-	64	526
Project analysis	400	-	-	400	-
Travel and entertainment	1,966	-	-	1,966	664
Trustee fees	85,300	-	-	85,300	96,600
	<u>110,007</u>	<u>350</u>	<u>215</u>	<u>110,572</u>	<u>121,567</u>
EXCESS OF RECEIPTS OVER EXPENDITURES	<u><u>\$ (51,185)</u></u>	<u><u>\$ 23,210</u></u>	<u><u>\$ 61,801</u></u>	<u><u>\$ 33,826</u></u>	<u><u>\$ 165,130</u></u>

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

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 and replaceable contractors who were negatively affected by government land use 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 YEAR ENDED DECEMBER 31, 2010

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 YEAR ENDED DECEMBER 31, 2010

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 Declaration.

(c) Expenditures Allocation

In accordance with the Declaration, 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.

6. **CASH**

	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	2010 Total	2009 <u>Total</u>
Cash	\$ <u>6,441</u>	\$ <u>173</u>	\$ <u>5</u>	\$ <u>6,619</u>	<u>\$ 36,344</u>

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

7. 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 Trust is not subject to Income Taxes.

8. GOODS AND SERVICES TAXES/HARMONIZED SALES TAXES

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

9. 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.

10. 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.

11. 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.

Pursuant to pay-out projections based on information on hand, 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.