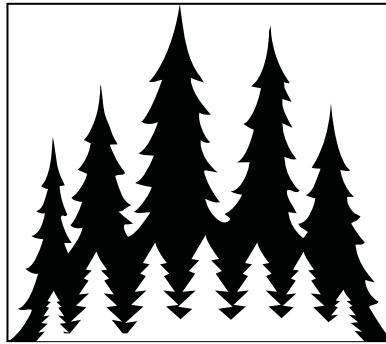


The BC Forestry Revitalization Trust II



**December 31, 2012
Annual Report**

**Trustee
Eric van Soeren**

The 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, 2012 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, Lands and Natural Resource Operations

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. 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 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 would 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.

At the direction of the BCFRT Advisory Board, all the assets, liabilities and ongoing commitments 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. It is administered by the BCFRT II 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 were 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. As of the beginning of this year administration expenses of the BCFRT II were slightly more than the interest earned by the Administration Account, so the initial principal had only been reduced to \$4.4 million.

Contractor Mitigation Account

The principle used for contractor mitigation was that contractors who lost their replaceable contracts as a result of the Forestry Revitalization Act (FRA) received mitigation that approximated what the contract might reasonably have been worth at the time it was reduced or eliminated. Generally, this was based on a per cubic metre value, but contracts that were calculated based on some other measure were 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.bcfirt.com.

In previous years, the holders of 317 replaceable contracts were partially or completely compensated for the loss of their replaceable contractual rights. Total contractor compensation paid out was \$70,748,591. As of the beginning of this year, all replaceable contractors had received the mitigation amounts for which they were eligible based on the Contractor Mitigation Guidelines.

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 detailed severance 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.

In previous years severance payments had been made to 848 forest workers, at a total cost to the BCFRT II of \$43,079,279. As of the beginning of this year, all forest workers had received the severance amounts for which they were eligible based on the Forest Worker Mitigation Guidelines.

Mitigation of the Negative Impacts of Ecosystem Based Management on Haida Gwaii.

During a February 2011 BCFRT II Advisory Board meeting it was agreed that the BCFRT II would cost share with the Coast Sustainability Trust II (CST II) to provide mitigation to workers and replaceable contractors that are negatively impacted by the implementation of Ecosystem Based Management (EBM) on Haida Gwaii. The formulas used to determine the amount of mitigation would be the same as were used in the earlier BCFRT II mitigation payments. The estimated cost of mitigation is \$5,535,428. Payments were to be made through the CST II, with the BCFRT II providing half the required funds.

During 2011, \$2,767,714 was transferred to the CST II to provide matching funds for worker and contractor mitigation. As of December 31, 2012, all 35 affected workers and all 10 affected contractors have received mitigation amounts.

Contractor Income Tax Liability

There has been uncertainty about the liability for income taxes payable on mitigation amounts received by replaceable contractors from the BCFRT II. The position of the four logging contractor associations in BC is that the amounts should have been received tax free, either because they were a windfall payment, or because they were amounts received from a personal trust. Others took the position that the amounts received as a result of the loss of some or all of a replaceable contract should be treated as a capital gain. The Canada Revenue Agency (the "CRA") took the position that all such amounts were to be treated and taxed as income.

The BCFRT II, the Loggers for Fair Taxation, the Minister of Forests, Lands and Natural Resource Operations, and the Premier of BC, worked on this problem for approximately four years. As a result, the Province of BC and the Advisory Board of the BCFRT II have agreed to increase the contractor mitigation payments received by replaceable contractors by an amount equal to the income taxes paid or payable on the amounts previously disbursed.

During the last quarter of 2011 letters were sent out to all contractors that received Contractor Mitigation funds from the BCFRT or the BCFRT II. Those letters invited the contractors to apply for extra mitigation in the event that they had paid taxes on the previous amount(s) received, or had been assessed but not yet paid those taxes.

As of December 31, 2012, 194 refund requests had been received. Also as of December 31, 2012, 177 refund determinations had been received from the CRA and passed on to the relevant contractors. Of those, 82 refund determinations have been agreed to by the relevant contractor. The rest are either not yet done, are being disputed by the contractor, or have not yet received a response from the contractor. Also as of December 31, 2012 no disbursements had been made from the 2011 Contractor Mitigation Account subtrust.

Part of the agreement with the Province of British Columbia is that all existing funds in the BCFRT II accounts were to be transferred into a new "2011 Contractor Mitigation Account Subtrust" of the BCFRT II. That was done early in 2012. These funds are to be applied to compensate the contractors for taxes paid or payable, and to pay the ongoing administration costs of the BCFRT II.

Another part of the negotiated settlement between the federal and provincial governments, the CRA and the Trustee and Advisory Board of the BCFRT II was that interest and penalties on unpaid taxes on the contractor mitigation amounts would be waived, and the benefit of any taxes paid to the CRA, or tax refunds paid to the contractors, would be a tax free benefit to the affected contractors. Subsequent to year end the final required Order in Council to facilitate the above settlement was filed. The first of the tax refunds and payments to the CRA on behalf of contractors were made early in 2013.

Adequacy of Funds

The cost of making contractors whole for income taxes assessed and paid or assessed but not yet paid on the contractor mitigation amounts they received is still not known. The best estimate as at December 31, 2012 is approximately \$8.5 to \$9.0 million. Once the BCFRT II funds are depleted, the Province of British Columbia will replenish the BCFRT II as required to meet the additional obligations to the contractors and the administration costs of the BCFRT II.

THE BC FORESTRY REVITALIZATION TRUST II
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

THE BC FORESTRY REVITALIZATION TRUST II
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Schedule of Marketable Securities	Schedule 1
Schedule of Investments	Schedule 2

Exhibit A

To the Trustee
The BC Forestry Revitalization Trust II

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of The BC Forestry Revitalization Trust II, which comprise the statement of financial position as at December 31, 2012, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustee's Responsibility for the Financial Statements

The Trustee is responsible for the preparation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustee, as well as evaluating the presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Exhibit A

INDEPENDENT AUDITOR'S REPORT

Opinion

In my opinion, the financial statements of The BC Forestry Revitalization Trust II for the year ended December 31, 2012, present fairly, in all material respects, the financial position of The BC Forestry Revitalization Trust II as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



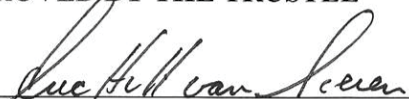
CHARTERED ACCOUNTANT

Vancouver, B.C.
February 25, 2013

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

<u>ASSETS</u>	<u>December 31, 2012</u>	December 31, <u>2011</u>	January 1, <u>2011</u>
CURRENT ASSETS			
Cash - note 6	\$ 22,292	\$ 8,125	\$ 6,619
Marketable securities - at cost - Schedule 1	7,522,183	5,007,879	5,740,894
Interest receivable	<u>152,262</u>	<u>168,845</u>	<u>119,460</u>
	7,696,737	5,184,849	5,866,973
INVESTMENTS, at cost - Schedule 2	<u>-</u>	<u>2,500,000</u>	<u>4,680,011</u>
TOTAL ASSETS	<u>\$ 7,696,737</u>	<u>\$ 7,684,849</u>	<u>\$ 10,546,984</u>
<u>LIABILITIES</u>			
CURRENT LIABILITY			
Accounts payable and accrued liabilities	<u>\$ 14,747</u>	<u>\$ 21,282</u>	<u>\$ 13,918</u>
TOTAL LIABILITIES	<u>14,747</u>	<u>21,282</u>	<u>13,918</u>
<u>FUND BALANCES</u>			
NET ASSETS			
Administration Fund - Exhibit C	-	4,396,197	4,458,996
Contractor Mitigation Fund - Exhibit C	-	743,695	1,503,373
Forest Worker Mitigation Fund - Exhibit C	-	2,523,675	4,570,697
2011 Contractor Mitigation Fund	<u>7,681,990</u>	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>7,681,990</u>	<u>7,663,567</u>	<u>10,533,066</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,696,737</u>	<u>\$ 7,684,849</u>	<u>\$ 10,546,984</u>

APPROVED BY THE TRUSTEE

 Trustee

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

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2011 Contractor Mitigation Fund</u>	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	December 31, 2012 Total	December 31, 2011 Total	January 1, 2011 Total
NET ASSETS, beginning of year	\$ -	\$ 4,396,197	\$ 743,695	\$ 2,523,675	\$ 7,663,567	\$ 10,533,066	\$ 12,132,872
Excess of receipts over disbursements	18,029	1	-	393	18,423	(2,869,499)	(1,599,806)
Interfund transfer	<u>7,663,961</u>	<u>(4,396,198)</u>	<u>(743,695)</u>	<u>(2,524,068)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, end of year	<u><u>\$ 7,681,990</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,681,990</u></u>	<u><u>\$ 7,663,567</u></u>	<u><u>\$ 10,533,066</u></u>

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

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2011 Contractor Mitigation Fund</u>	<u>Administration Fund</u>	<u>Contractor Mitigation Fund</u>	<u>Forest Worker Mitigation Fund</u>	December 31, 2012 Total	December 31, 2011 Total
INTEREST RECEIPTS - note 4(b)	\$ 126,772	\$ 1	\$ -	\$ 393	\$ 127,166	\$ 157,906
DISBURSEMENTS - note 4						
Audit fees	5,315	-	-	-	5,315	9,217
Bank charges and interest	200	-	-	-	200	630
Disbursements to beneficiaries	-	-	-	-	-	109,674
GST/HST expense	11,604	-	-	-	11,604	15,832
Legal fees	1,039	-	-	-	1,039	10,718
Office	184	-	-	-	184	892
Transfer of funds to The CST	-	-	-	-	-	2,767,713
Travel and entertainment	486	-	-	-	486	1,829
Trustee fees	<u>89,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,915</u>	<u>110,900</u>
	<u>108,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,743</u>	<u>3,027,405</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>\$ 18,029</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 393</u>	<u>\$ 18,423</u>	<u>\$ (2,869,499)</u>

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

THE BC FORESTRY REVITALIZATION TRUST II
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, <u>2012</u>	December 31, <u>2011</u>
OPERATING ACTIVITIES		
Excess of receipts over disbursements	\$ 18,423	\$ (2,869,499)
Changes in non-cash working capital balances		
Accounts receivable	16,583	(49,384)
Accounts payable and accrued liabilities	<u>(6,533)</u>	<u>7,360</u>
Cash from operations	28,473	(2,911,523)
INVESTING ACTIVITIES		
Investments	<u>(14,305)</u>	<u>2,913,029</u>
CHANGE IN CASH DURING THE YEAR	14,168	1,506
CASH, beginning of year	<u>8,124</u>	<u>6,618</u>
CASH, end of year	<u><u>\$ 22,292</u></u>	<u><u>\$ 8,124</u></u>
 REPRESENTED BY:		
Cash	<u><u>\$ 22,292</u></u>	<u><u>\$ 8,124</u></u>

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

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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*.

As of December 31, 2011 all workers who were potential beneficiaries of the Trust had received the mitigation for which they were eligible based on the Employee Mitigation Guidelines, and all contractors that were potential beneficiaries of the Trust had received the mitigation for which they were eligible based on the Contractor Mitigation Guidelines.

During the previous years many of the contractors that were beneficiaries of the Contractor Mitigation Fund were assessed or reassessed by the Canada Revenue Agency (the "CRA") for income taxes on amounts received from the Trust. It was the contractors' contention that they had expected to receive those funds on an after tax basis. However, the CRA maintained the position that all contractor mitigation funds were to be treated as income.

During the year, the Trustee, in consultation with the Advisory Board and the Minister of Forests, Lands and Natural Resource Operations (the "Minister") caused the Trust to transfer all remaining funds in the Administration Fund, the Contractor Mitigation Fund, and the Forest Worker Mitigation Fund into the newly formed 2011 Contractor Mitigation Fund. The purpose of this fund is to reimburse contractors that were assessed and paid income taxes related to the receipt of Contractor Mitigation Funds, or to pay directly to the CRA taxes that were assessed and are still outstanding. Contractors that did not pay taxes in the year(s) they received contractor mitigation funds are not eligible beneficiaries of the new 2011 Contractor Mitigation Account Subtrust.

As at December 31, 2012 the amount required to fully mitigate the beneficiaries of the Trust was not determinable. However, the Minister has made a commitment to fund any shortfall (see note 11).

2. BENEFICIARIES OF THE TRUST

The beneficiaries of the Trust are Eligible Contractors as defined in Paragraph 2.03 of the Declaration of Trust Setting Out the Terms and Conditions of the 2011 Contractor Mitigation Account Subtrust (the "Subtrust"), of the BC Forestry Revitalization Trust II, that are also Eligible Taxpayers as defined in paragraph 2.04 of the Subtrust.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

3. DURATION OF THE TRUST

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

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Restricted Fund Method

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. As at December 31, 2012, only one restricted fund remains. All revenues and receipts and all permitted expenditures and disbursements will be recorded in that fund. 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.

Pursuant to recommendations of the Advisory Board, during the year the Trustee transferred the balance of the Administration Fund to the 2011 Contractor Mitigation Fund.

(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.

Pursuant to recommendations of the Advisory Board, during the year the Trustee transferred the balance of the Contractor Mitigation Fund to the 2011 Contractor 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*.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

(a) Restricted Fund Method, *cont'd*

(iii) Forest Worker Mitigation Fund, *cont'd*

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.

Pursuant to recommendations of the Advisory Board, during the year the Trustee transferred the balance of the Forest Worker Mitigation Fund to the 2011 Contractor Mitigation Fund.

(iv) 2011 Contractor Mitigation Fund

This fund is to be used to provide mitigation to certain replaceable contractors that previously received contractor mitigation from the Trust or the Predecessor Trust and were assessed and paid income taxes or were assessed and have not yet paid income taxes in the tax year in which they received the contractor mitigation.

(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.

(c) Canadian Accounting Standards for Not-for-Profit Organizations

The Trustee has elected to prepare the financial statements of the Trust in accordance with Canadian generally accepted accounting principles using Canadian Accounting Standards for Not-for-Profit Organizations.

The transition is completed in accordance with Section 1501, Part III of the CICA Handbook - Accounting. The transition has not resulted in any changes to or restatements of amounts reported in prior years.

5. **FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS ("ASNPO")**

These are the Trust's first financial statements in accordance with ASNPO. The date of transition to these standards is January 1, 2011.

These financial statements of the Trust have been prepared using policies specified by those standards that are in effect at the end of the reporting period ended December 31, 2012. The significant accounting policies that have been applied in the preparation of these financial statements are summarized in Note 4. These accounting policies have been used throughout all periods presented in the financial statements.

The Trust has applied The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1501, Part III First-Time Adoption in preparing these financial statements under ASNPO. The effects of the transition on net assets, results of operations and cash flows are presented in this section.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

5. FIRST-TIME ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS ("ASNPO"), *cont'd*

Upon transition, the Trust has applied the mandatory exceptions; however, no optional exemptions were applied.

Statement of financial position

Net assets at the date of transition have not been affected by the application of the mandatory exceptions or by other changes in accounting policies upon transition.

Statement of operations

Results of operations for the years ended December 31, 2012 and December 31, 2011 have not been affected by the application of the mandatory exceptions or by other changes in accounting policies upon transition.

Statement of cash flows

There were no adjustment to the previous reported statement of cash flows for the year ended December 31, 2011.

6. CASH

	December 31, 2012 <u>Total</u>	December 31, 2011 <u>Total</u>	January 1, 2011 <u>Total</u>
Cash	<u>\$ 22,292</u>	<u>\$ 8,125</u>	<u>\$ 6,619</u>

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 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.

THE BC FORESTRY REVITALIZATION TRUST II
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

11. SUFFICIENCY OF FUNDS

During a prior year, the Trustee and Advisory Board developed Forest Worker Mitigation Guidelines and Contractor Mitigation Guidelines.

The Trust was able to fulfill its obligations under the Forest Worker and Contractor Mitigation Guidelines.

During the year, pursuant to a recommendation of the Advisory Board and an offer of additional funds for the Trust from the Minister of Forests, Lands and Natural Resource Operations, the Trustee transferred all remaining funds in the Administration Fund, the Contractor Mitigation Fund and the Forest Worker Mitigation Fund into a newly created Contractor Income Tax Mitigation Fund of the Trust. The purpose of this Fund is to provide relief to contractors that were assessed and paid or still owe income taxes on the contractor mitigation amounts previously received from the Trust. While the total amount of additional relief required is not known, the Province of British Columbia has committed to make up the shortfall, if any, between the funds in the Trust and the amount required to provide the above mentioned tax relief.

THE BC FORESTRY REVITALIZATION TRUST II
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 <u>Total</u>	December 31, 2011 <u>Total</u>	January 1, 2011 <u>Total</u>
CPN Province of Saskatchewan Face Value \$15,018 Due February 4, 2011	-	-	15,000
Res Province of British Columbia Face Value \$810,370 Due February 21, 2011	-	-	799,997
CPN Government of Canada Face Value \$1,168,124 Due June 1, 2011	-	-	1,145,000
Res TD Bank Face Value \$399,667 Due October 28, 2011	-	-	388,798
Res Province of Ontario Face Value \$716,078 Due December 2, 2011	-	-	706,099
Res CIBC Face Value \$593,620 Due March 28, 2011	-	-	568,621
Res TD Bank Face Value \$920,752 Due October 28, 2011	-	-	894,449
Res Province of Ontario Face Value \$1,240,212 Due December 2, 2011	-	-	1,222,930
CPN Ontario Hydro Global Face Value \$1,071,690 Due April 15, 2012	-	1,046,529	-
CPN Province of Ontario Face Value \$1,312,173 Due June 2, 2012	-	1,279,999	-

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

THE BC FORESTRY REVITALIZATION TRUST II
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 <u>Total</u>	December 31, 2011 <u>Total</u>	January 1, 2011 <u>Total</u>
<i>carried forward</i>	-	2,326,528	5,740,894
CPN CIBC Face Value \$337,560 Due May 2, 2012	-	334,910	-
Residual Newfoundland Province Face Value \$408,610 Due February 15, 2012	-	399,999	-
Res Bank of Montreal Face Value \$321,312 Due June 21, 2012	-	309,979	-
Res Province of BC Face Value \$1,029,448 Due January 9, 2012	-	993,505	-
CPN CIBC Face Value \$249,452 Due June 6, 2012	-	247,056	-
CPN BMO Face Value \$400,000 Due June 21, 2012	-	395,902	-
CPN Hydro-Quebec Face Value \$1,494,736 Due January 10, 2013	1,400,000	-	-
Res Bank of Nova Scotia Face Value \$353,259 Due March 27, 2013	349,999	-	-
CIBC GIC Face Value \$500,000 Due June 3, 2013	500,000	-	-
Res Royal Bank of Canada Face Value \$1,147,800 Due June 6, 2013	1,100,000	-	-

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

THE BC FORESTRY REVITALIZATION TRUST II
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 <u>Total</u>	December 31, 2011 <u>Total</u>	January 1, 2011 <u>Total</u>
<i>carried forward</i>	3,349,999	5,007,879	5,740,894
Province of BC Promissory Note Face Value \$503,000 Due July 10, 2013	499,927	-	-
CPN Province of Ontario Face Value \$340,000 Due July 13, 2013	333,594	-	-
Province of Ontario Treasury Bill Face Value \$907,000 Due September 4, 2013	899,853	-	-
CPN Province of BC Face Value \$1,596,404 Due December 18, 2013	1,564,448	-	-
Province of Ontario Treasury Bill Face Value \$880,000 Due May 22, 2013	<u>874,362</u>	<u>-</u>	<u>-</u>
MARKETABLE SECURITIES	<u>\$ 7,522,183</u>	<u>\$ 5,007,879</u>	<u>\$ 5,740,894</u>

Marketable securities are recorded at cost.

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

THE BC FORESTRY REVITALIZATION TRUST II
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

	December 31, 2012 <u>Total</u>	December 31, 2011 <u>Total</u>	January 1, 2011 <u>Total</u>
CPN Ontario Hydro Global Face Value \$537,622 Due April 15, 2012	\$ -	\$ -	\$ 525,000
CPN Province of Ontario Face Value \$546,064 Due June 2, 2012	-	-	529,999
CPN Hydro Quebec Face Value \$1,494,736 Due January 10, 2013	-	1,400,000	1,400,000
Residual Newfoundland Province Face Value \$408,610 Due February 15, 2012	-	-	399,999
CPN Ontario Hydro Global Face Value \$534,068 Due April 15, 2012	-	-	521,529
Res Bank of Montreal Face Value \$321,312 Due June 21, 2012	-	-	309,979
Res RBC Face Value \$1,147,800 Due June 6, 2013	-	1,100,000	-
Res Province of BC Face Value \$1,029,448 Due January 9, 2012	-	-	993,505
INVESTMENTS	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 4,680,011</u>

Investments are recorded at cost.

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