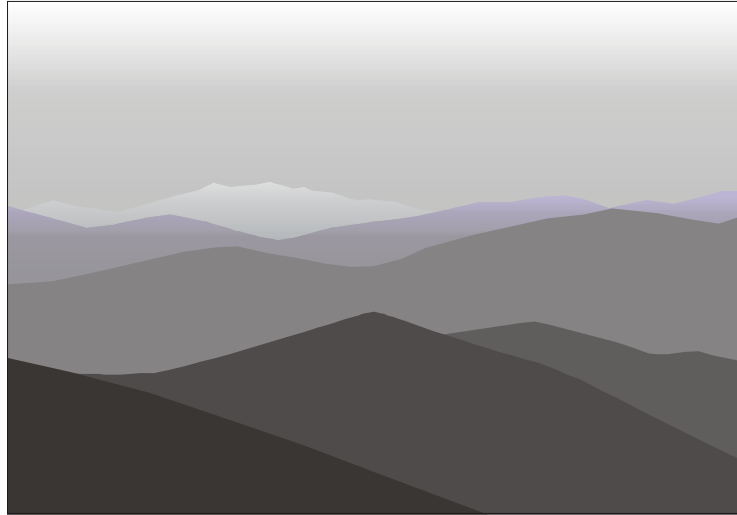


The Coast Sustainability Trust



2002 Annual Report

**Trustee
Eric van Soeren**

The Honourable Stan Hagen

Minister of Sustainable Resource Management

Province of British Columbia

Sir:

I am pleased to submit my report of the activities of The Coast Sustainability Trust for the period March 28, 2002 to December 31, 2002.

A handwritten signature in black ink, appearing to read "Eric van Soeren". The signature is written in a cursive style with a large initial 'E'.

Eric van Soeren

Trustee

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The Coast Sustainability Trust

Report of the Trustee

The Coast Sustainability Trust (CST) was established in late March 2002. Its purpose is to mitigate any adverse impacts arising from government land use planning decisions related to the Land and Resource Management Plan (LRMP) process in the Central Coast, North Coast, and Queen Charlotte Islands, and to help the coastal forest industry and coastal communities and First Nations become more sustainable.

The Trust consists of two funds

1. A **Mitigation Fund** for workers and contractors affected by Government land use decisions; and
2. A **Matching Fund** for communities and First Nations that have been negatively affected by government land use decisions, and workers, contractors and communities that may be negatively affected by Ecosystem Based Management impacts.

Trust Administration

A Trustee and a five-person Advisory Board administer the CST. The Advisory Board consists of one representative for industry, one for the Truck Loggers' Association, one for the IWA, and one for the provincial government. As at year end the position of community representative is vacant.

Following are the criteria for the \$25,000,000 Mitigation Fund:

- Workers and contractors must be negatively affected by provincial government land use decisions related to the LRMP process made in the Central Coast, North Coast, and Queen Charlotte Islands planning areas.
- Workers must be full-time workers who are laid-off permanently some time after January 1, 2000 as a result of these land-use decisions.
- Workers hired and contractors first signed after April 1, 2001 are not eligible.
- Workers and contractors must have been working for mills or forestry related operations that derive at least 25% of their fibre from a specified LRMP planning area.

For workers, the following criteria apply:

- Funding assistance is available as severance. The amount is based on the Coast Master Agreement, which is 7 days pay for each full year worked, plus 7/12 of a day for each full month of a partial year.
- Unlike the Coast Master, severance can be paid even though there is not a permanent closure.
- Severance is paid based on Coast Master whether or not the employees are part of a union.
- If there is a reduction of staff, the union, company and the employees can decide who should go. Seniority isn't the only guide. If this results in slightly higher severance payments, the CST will cover it. The point is to help those who want to leave the industry do so to make room for those that want to stay.
- Employees that have partially mitigated their loss by finding alternate employment can still qualify for severance.

- Employees that receive voluntary severance have to sign a release giving up preferential hiring rights and seniority.

For contractors, the following criteria apply:

- Funding assistance is available for contractor buy-outs and payments for redundant equipment.
- Contractor buy-outs are based on a formula tied to the value of the contract and the amount of capital invested in the operation.
- Contractors with a low capital investment, such as most falling contractors, will receive 7% of the revenue they would receive if they were working, times 3. This is an estimate of what they may have earned over a 3-year period.
- Contractors with a high capital investment, such as full phase contractors, will receive 10% of the revenue they would receive if they were working, times 4. This is an estimate of what they may have earned over a 4-year period. The extra payment is in recognition of the fact that they had more invested, were likely less mobile, and therefore may have more trouble finding alternate income.
- The above formulas represent an estimate of the fair market value of the contracts if there was an arms length sale between a willing buyer and a willing seller.
- There are caps placed on buy-out payments to reflect known arms length transactions. For example, the most a full phase contractor will likely get is \$16/m³, and the most a road builder will get is \$30,000 per kilometer of road.
- In addition, as part of the contract buy-out, contractors are eligible for mitigation payments for redundant equipment based on 25% of the appraised value of their equipment, as determined by Ritchie Bros. The point of this payment is to cover some of the loss in value of the equipment, and the cost of servicing debt and maintaining the equipment when there was little work for it to do.

It appears the Central Coast LRMP area will require approximately \$15,000,000 for severance and contract buy-out. The CST Mitigation Fund must be disbursed by March 31, 2005. Any remaining funds at that time will be directed to the CST Matching Fund.

Following are the criteria for the \$10,000,000 Matching Fund:

- Funding can be directed to First Nations and forest-dependent communities in the Regional Districts of Skeena-Queen Charlotte, Central Coast, Comox-Strathcona, Mount Waddington, and the portions of the Kitimat-Stikine that are included in the North Coast planning area.
- Forest-dependent communities are defined as those at least 10% dependent on the forestry sector and with at least 10% of the labour force employed through the forest sector.
- Workers, contractors and communities that may be affected by Ecosystem Based Management (EBM) are also eligible. However, EBM has yet to be defined.

The initial fund allocation is as follows:

- \$5,000,000 for Communities, including First Nations.
- \$5,000,000 for workers, contractors and communities that may be negatively impacted by EBM.
- Both allocations are subject to a maximum of 3% administration costs.

The immediate objective of the Matching Fund is to provide funding to projects in communities impacted by the LRMP process. Funds will address local adjustment priorities, needs, opportunities and solutions. Projects must have community and preferably regional support and should result in:

- Regional and community strategic planning;
- Strategic investments with expected long term economic benefits; and
- Reduction of reliance on forestry based activities to alternative and sustainable economic activities.

The following guiding principles are to be applied to projects being submitted to the CST for consideration:

- Helps in developing a regional and community economic development strategy, if no current plan exists.
- Helps diversify the local economy, without adversely affecting the economies of neighboring communities.
- Tangible long-term direct economic benefits, including employment creation or enhancement.
- Promotes sustainable development within the region.
- Demonstrates broad based community support.
- Consistent with the community's Community Economic Development Strategy.
- Leverages a minimum of an equal amount of unencumbered private or public sector dollars.
- Not request funding for activities that can be covered by other existing programs.
- Are environmentally sound and not cause unsustainable pressure on natural resources.

Type of Assistance

- Funding assistance for communities is available for a variety of activities including
 - regional planning (up to 20% of the available funds),
 - infrastructure development, and
 - marketing.
- Assistance will be in the form of grants made directly to communities or First Nations.
- No funding will be provided to independent for profit operations.
- Assistance related to EBM will not be available until EBM is defined, so employees and contractors do not have access to this fund yet. A draft EBM Framework has been prepared by the Coast Information Team, and is currently being circulated for comment.

Fund Term

- The CST Matching Fund must be disbursed by March 31, 2007.
- Any remaining funds will be directed by the Trustee to another existing fund or program at that time.

Activities Summary

Following is a chronology of major events that occurred during 2002:

March 28, 2002	The Coast Sustainability Trust was created through a Deed of Trust
July 15, 2002	Eric van Soeren was appointed as the sole Trustee
November 7, 2002	The Advisory Board approved Mitigation Fund Guidelines dated October 24, 2002 and titled "Guidelines for major licensees with respect to severance, contract buy-out and compensation for redundant equipment"
November 28, 2002	The first funds to beneficiaries are disbursed to a contractor, to be used to provide severance payments to his workers.
December 10, 2002	The Advisory Board approved Community Matching Fund Guidelines titled "Guidelines for communities with respect to funding Proposals from the Coast Sustainability Trust Matching Funds Account"

Distributions to Beneficiaries

During the year the Trust received and approved in principle the restructuring plans of the three major licensees on the Central Coast, being International Forest Products Limited, Western Forest Products Ltd., and Weyerhaeuser Company Limited. These restructuring plans anticipate mitigation to workers and contractors of approximately \$15,000,000. They involve 33 contractors that must be fully or partially bought out, and approximately 180 redundant workers.

During 2002, all the beneficiaries that received funding through The Coast Sustainability Trust (CST) were workers. In every case, the benefits received were in the form of severance paid for loss of employment as a result of reduced harvesting opportunities that resulted from government land use decisions that flowed from the Central Coast LRMP process. Benefits were calculated using guidelines established by the CST Advisory Board and described above.

In every case the distributions to workers satisfied a Distribution Objective of the Deed of Trust that established the CST. In particular, these payments met the requirement that "The distribution will assist in mitigating any adverse effect suffered by Workers, Contractors and other Beneficiaries as a result of provincial government land use decisions made in respect of the Specified Area." Each of the above workers met the above test in that they all suffered a loss of employment.

As at December 31, 2002 the Trustee was close to finalizing several negotiations with contractors, but no funds had been disbursed for contractor mitigation. However, \$1,449,038 had been disbursed to fund severance payments to 76 ex-employees.

THE COAST SUSTAINABILITY TRUST
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2002

THE COAST SUSTAINABILITY TRUST
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To the Trustee
The Coast Sustainability Trust

AUDITORS' REPORT

We have audited the statement of financial position of The Coast Sustainability Trust as at December 31, 2002, 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, 2002 and its receipts and expenditures for the period then ended in accordance with Canadian generally accepted accounting principles.


CHARTERED ACCOUNTANTS

Vancouver, B.C.
February 26, 2003

THE COAST SUSTAINABILITY TRUST
BALANCE SHEET
AS AT DECEMBER 31, 2002

ASSETS

CURRENT ASSETS

Cash - note 5	\$ 2,564,530
Marketable securities - note 6	23,373,822
Interest receivable	187,981
Prepaid expenses	<u>1,000</u>
	26,127,333

INVESTMENTS - note 6

7,950,163

TOTAL ASSETS

\$ 34,077,496

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	<u>\$ 32,905</u>
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TOTAL LIABILITIES

32,905

FUND BALANCES

NET ASSETS

Mitigation fund - Schedule 1	23,900,206
Matching fund - Schedule 1 and note 7	<u>10,144,385</u>

TOTAL NET ASSETS

34,044,591

TOTAL LIABILITIES AND NET ASSETS

\$ 34,077,496

APPROVED BY THE TRUSTEE

_____ Trustee

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE COAST SUSTAINABILITY TRUST
STATEMENT OF NET ASSETS
FOR THE PERIOD ENDED DECEMBER 31, 2002

EXCESS OF RECEIPTS OVER EXPENDITURES	\$ <u>493,629</u>
NON-OPERATING TRANSACTIONS	
Settlement of Trust	35,000,000
Disbursements to beneficiaries	<u>(1,449,038)</u>
	<u>33,550,962</u>
NET ASSETS AT BEGINNING OF PERIOD	<u>-</u>
NET ASSETS AT END OF PERIOD	<u>\$ 34,044,591</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE COAST SUSTAINABILITY TRUST
STATEMENT OF RECEIPTS AND EXPENDITURES
FOR THE PERIOD ENDED DECEMBER 31, 2002

	<u>Mitigation Fund</u>	<u>Matching Fund</u>	<u>Total</u>
INTEREST RECEIPTS	\$ <u>468,754</u>	\$ <u>198,718</u>	\$ <u>667,472</u>
EXPENDITURES			
Administration fees	12,476	4,990	17,466
Advisory board meeting costs	336	520	856
Audit fees	8,063	8,063	16,126
Bank charges and interest	11,453	4,727	16,180
Consulting	3,920	-	3,920
GST expense	6,981	3,055	10,036
Legal fees	4,104	2,319	6,423
Office	53	127	180
Travel and entertainment	3,724	3,172	6,896
Trustee fees	<u>68,400</u>	<u>27,360</u>	<u>95,760</u>
	<u>119,510</u>	<u>54,333</u>	<u>173,843</u>
EXCESS OF RECEIPTS OVER EXPENDITURES	<u>\$ 349,244</u>	<u>\$ 144,385</u>	<u>\$ 493,629</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

1. PURPOSE OF THE TRUST

The Coast Sustainability Trust (the "Trust") was established by Deed of Trust dated March 28, 2002. Pursuant to Order in Council No. 258, approved and ordered on March 28, 2002, Forest Renewal B.C. made a payment of \$35,000,000 to the Trust. The funds are to be used to:

- a) implement short term mitigation measures for workers, contractors, communities and First Nations on whom the Land and Resource Management Plans ("LRMP") in the Central Coast, North Coast and the Queen Charlotte Islands/Haida Gwai have negative impacts; and
- b) to mitigate the longer term impacts of implementing these plans.

2. BENEFICIARIES OF THE TRUST

The beneficiaries of the Trust are:

- a) individuals who were employed in the forest industry in specified geographical areas during a specified period;
- b) individuals, companies, partnerships or other entities who provided services as contractors or operated sawmills which received at least 25% of their wood from specified geographical areas during a specified period;
- c) municipalities and unincorporated areas located in certain Regional Districts;
- d) any band (as defined by the Indian Act) located in specified geographical areas; and
- e) any other person or entity appointed by the Trustee as beneficiary in accordance with the Trust Deed.

3. SIGNIFICANT ACCOUNTING POLICY

Fund Accounting

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

- a) Mitigation Fund
 - i) Restricted

This fund is to be used to provide severance payments to employees and contract buy-outs and mitigation for redundant equipment to contractors in specified geographical areas during the specified period. This fund must be disbursed to beneficiaries by March 31, 2005. Any amount then remaining will be transferred to the restricted Matching Fund.

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

a) Mitigation Fund, cont'd

ii) Unrestricted

This fund is to be used for administration expenses incurred over the life of the Trust.

b) Matching Fund

i) Restricted

This fund is to be used to provide assistance to communities and First Nations that have been negatively affected by the LRMP process in the specified areas, and communities, First Nations, contractors and workers on whom Ecosystem Based Management ("EBM") has had a negative impact. Funds can only be disbursed from the Trust if they are matched at a minimum of a 1:1 basis with unencumbered funds from sources other than the provincial government.

ii) Unrestricted

This fund is to be used for administration expenses incurred over the life of the trust.

Revenue Recognition

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

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.

4. 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.

5. CASH

	<u>Mitigation Fund</u>	<u>Matching Fund</u>	<u>Total</u>
Cash	<u>\$ 1,610,450</u>	<u>\$ 954,080</u>	<u>\$ 2,564,530</u>

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

6. INVESTMENTS

	<u>Mitigation Fund</u>	<u>Matching Fund</u>	<u>Total</u>
Government of Canada Treasury Bill			
Face Value \$6,000,000			
Due March 13, 2003	\$ 5,921,742	\$ -	\$ 5,921,742
Government of Canada Treasury Bill			
Face Value \$500,000			
Due September 11, 2003	485,877	-	485,877
Brascan Financial Corporation			
Face Value \$800,000			
Discount Note - Due January 7, 2003	799,142	-	799,142
Franchise Trust - 95			
Face Value \$1,600,000			
Discount Note - Due January 8, 2003	1,595,701	-	1,595,701
Associates Capital Corp Canada			
Face Value \$3,400,000			
Discount Note - Due January 9, 2003	3,388,511	-	3,388,511
Canadian Imperial Bank of Commerce			
Face Value \$2,900,000			
Bankers Acceptance - January 24, 2003	2,892,240	-	2,892,240
GE Funding Co.			
Face Value \$2,000,000			
Discount Note - Due February 18, 2003	1,985,984	-	1,985,984
PRN Province of Alberta			
Face Value \$4,500,000			
Due December 1, 2003	2,408,825	1,927,060	4,335,885
RES Province of Ontario Global 8.75 2003			
Face Value \$2,000,000			
Due April 22, 2003	<u>-</u>	<u>1,968,740</u>	<u>5,143,413</u>
Short term investments	19,478,022	3,895,800	23,373,822

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

6 INVESTMENTS, cont'd

Short term investments, <i>carried forward</i>	19,478,022	3,895,800	23,373,822
RES Province of Ontario Face Value \$5,500,000 Due September 15, 2004	2,337,915	2,805,498	1,968,740
Province of Manitoba Ratchet Coupon Rate Notes Face Value \$1,000,000 Due December 5, 2005	1,000,000	-	1,000,000
CPN Province of Ontario Face Value \$2,000,000 Due June 2, 2005	<u>-</u>	<u>1,806,750</u>	<u>1,806,750</u>
Long term investments	<u>3,337,915</u>	<u>4,612,248</u>	<u>7,950,163</u>
TOTAL INVESTMENTS	<u>\$ 22,815,937</u>	<u>\$ 8,508,048</u>	<u>\$ 31,323,985</u>

7. MATCHING FUND

The Matching Fund portion (\$10 million) of the Trust is to be used to fund certain community initiatives to mitigate adverse impacts from Land and Resources Management Plan ("LRMP") decisions and Ecosystem Based Management ("EBM") in specified areas.

Any disbursement from the Matching Fund is required to be matched on at least a 1:1 basis with unencumbered funds from sources other than the provincial government. The Trustee and his Advisory Board have prepared guidelines with respect to the Matching Fund in accordance with the directives in the trust deed and have allocated the Matching Fund as follows:

a) to mitigate effects of EBM:	\$ 5,000,000
b) to mitigate effects of LRMP:	
i) held in a pooled fund pending the development of regional business plans	2,500,000
ii) for equal allocation among five Regional Steering Committees	<u>2,500,000</u>
	<u>\$ 10,000,000</u>

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

7. MATCHING FUND, cont'd

In accordance with the guidelines, any funds which have been allocated to the five Regional Steering Committees, unused by March 31, 2005, will revert to the restricted Matching Fund allocated to mitigate effects of LRMP.

The amount set aside pending the development of regional business plans is to be held in a separate pool.

The allocations are preliminary and may be reviewed in the future.

In accordance with the Deed of Trust, up to 3% of the initial contribution to the Trust may be used for administrative expenses over the life of the Trust. For the period ended December 31, 2002, the Trust's receipts exceeded its expenditures.

8. INCOME TAXES

The Trustee is of the opinion that the Trust is either a non-profit organization or a public body performing a function of government and is therefore not a taxable entity. In order to confirm the Trust's status for income tax purposes, the Trustee has applied to the Canada Customs and Revenue Agency for a ruling.

If the Canada Customs and Revenue Agency rules that the Trust is subject to income tax, the Trust would have to pay tax each year on its annual income less any such income that is made payable to beneficiaries prior to the end of that year. For the year ended December 31, 2002, Trust distributions exceed the income of the Trust (with the result that the Trust would have no net taxable income in any event).

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 significant concentration of credit risk.

10. COMMITMENTS

In accordance with the Trust deed, all funds must be disbursed to beneficiaries in accordance with the purpose of the Trust and the guidelines prepared by the Trustee by March 31, 2007. Any amounts remaining at that time are to be transferred to a person, organization or association whose objectives are comparative with the distribution objectives of the Trust. However, no amounts may be transferred to the government of the province of British Columbia.

As at December 31, 2002, the Trust had committed to make the following disbursements to four contractors out of the Mitigation Fund:

Severance	\$ 28,700
Contract buy-outs	1,615,237
Mitigation for redundant equipment	<u>448,217</u>
	<u>\$ 2,092,154</u>

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF FUNDS
FOR THE PERIOD ENDED DECEMBER 31, 2002

	Matching fund		Mitigation fund		<u>Total</u>
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>	
Balance, beginning of period	\$ -	\$ -	\$ -	\$ -	\$ -
Settlement of trust	9,700,000	300,000	24,250,000	750,000	35,000,000
Disbursements to beneficiaries	-	-	(1,449,038)	-	(1,449,038)
Excess of receipts over expenditures	<u>-</u>	<u>144,385</u>	<u>-</u>	<u>349,244</u>	<u>493,629</u>
Balance, end of period	<u>\$ 9,700,000</u>	<u>\$ 444,385</u>	<u>\$ 22,800,962</u>	<u>\$ 1,099,244</u>	<u>\$ 34,044,591</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.