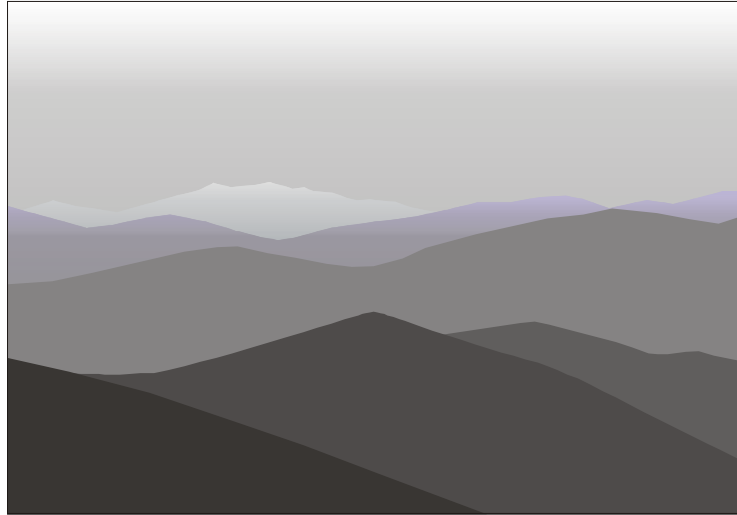


The Coast Sustainability Trust



2006 Annual Report

**Trustee
Eric van Soeren**

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 (the Specified Area), and to help the coastal forest industry and coastal communities and First Nations become more sustainable.

As of December 31, 2006, the Trust consists of three funds:

1. A **Matching Fund** for communities and First Nations that have been negatively affected by provincial government land use decisions related to the LRMP process, and workers, contractors and communities that may be negatively affected by Ecosystem Based Management impacts;
2. An **Ecosystem Based Management Land Use Planning subtrust (EBM-LUP)**. This subtrust was established in March 2003 to enable participation in, and provide technical assistance to, the LRMP process, to promote and facilitate sustainable economic development, and/or to facilitate community development; and
3. An **Economic, Scientific and Adaptive Management Development and Planning subtrust (ESAMDAP)**. This subtrust was established in March 2004 to enable participation, and provide technical assistance, in the land use planning or implementation and monitoring process; promote sustainable economic development; promote scientific assessment of plan implementation and outcomes; initiate projects that will facilitate economic development; and/or facilitate community development and/or community capacity to undertake community development.

Trust Administration

A Trustee and a five-person Advisory Board administer the CST. The Advisory Board consists of one representative for the coastal forest industry, one for the Truck Loggers Association, one for the Steelworkers, one for the provincial government and one for communities.

Following are the criteria for the 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 LRMP 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 provincial government land use decisions related to Ecosystem Based Management (EBM) are also eligible.

The initial fund allocation was 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.

During 2004 the CST Advisory Board transferred \$2,500,000 from the EBM account to the Communities, including First Nations, account. This was done because 4 of the 5 Regional Steering Committees had come close to committing all their initial allocation to a variety of projects, while there had been no requests for assistance related to the negative effects of EBM.

Effective March 31, 2005, funds remaining in the Mitigation Fund totaling \$12,194,584 were transferred into the Matching Fund. As a result, the \$2,500,000 allocation transferred to the Communities, including First Nations, was returned to an allocation for EBM. There were also sufficient funds to increase the allocation to the five Regional Steering Committees by \$2,000,000 each. Those allocations remained the same during 2006, so as of December 31, 2006, each of the 5 Regional Steering Committees had an allocation of \$3,500,000. The amount specifically committed and/or disbursed varies for each Regional Steering Committee. Details broken down by Regional Steering Committee are given in the Distributions to Beneficiaries section of this report.

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 conventional 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.
- Has tangible long-term direct economic benefits, including employment creation or enhancement.
- Promotes sustainable development within the region.
- Demonstrates broad based community support.
- Is consistent with the community's Community Economic Development Strategy.
- Leverages a minimum of an equal amount of unencumbered private or public sector dollars.
- Does not request funding for activities that can be covered by other existing programs.
- Is environmentally sound and does not cause unsustainable pressure on natural resources.

Types of Assistance

- Funding assistance for communities is available for a variety of activities including:
 - regional planning;
 - infrastructure development; and
 - marketing.

- Assistance will be in the form of grants made directly to communities, First Nations or entities such as not for profit societies or associations that are formally supported by 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, and a negative impact on contractors or employees can be identified. At this time nothing has come to the attention of the Trustee to suggest that there has been any contractor or worker displacement as a result of provincial government land use decisions related to EBM, so employees, contractors and communities do not have access to this portion of the fund yet. At present the best estimate for the timing of the implementation of EBM is sometime in 2009.

Following are the criteria for the \$254,000 EBM-LUP subtrust:

Funding can be directed to qualified recipients, such as a First Nations Band or Council, a local government, or a not-for-profit organization located in the Specified Area, providing the proposal meets one or more of the following criteria:

- Enables participation in the Land Use Planning process;
- Provides technical assistance to the Land Use Planning process;
- Promotes sustainable economic development;
- Initiates an infrastructure project that will facilitate economic development; and/or
- Facilitates community development.

Following are the criteria for the \$145,000 ESAMDAP subtrust:

Funding can be directed to qualified recipients, including consultants or organizations such as a First Nations Band or Council, a local government, or a not-for-profit organization located in the Specified Area, providing the proposal meets one or more of the following criteria:

- Enables participation in the Land Use Planning or implementation and monitoring process;
- Provides technical assistance to the Land Use Planning or implementation and monitoring process;
- Promotes sustainable economic development;
- Promotes scientific assessment of plan implementation and outcomes;
- Initiates projects and/or infrastructure projects that will facilitate economic development; and/or
- Facilitates community development and/or community capacity to undertake community development.

Fund Term

- The CST Matching Fund, the EBM-LUP subtrust, and the ESAMDAP subtrust must be disbursed by March 31, 2007.
- Any remaining funds at March 31, 2007 will be directed by the Trustee to another existing fund or program with objectives that are consistent with the Coast Sustainability Trust.
- At the direction of the CST Advisory Board, the Trustee is establishing a new trust, to be called Coast Sustainability Trust II (CST II). It will essentially be a continuation of the CST, and involve a roll over of the CST fund assets, liabilities, and ongoing commitments to CST II.

Distributions to Beneficiaries

Mitigation Fund

As of December 31, 2006, CST supported contractor mitigation and employee severance required because of provincial government land use decisions related to the LRMP process on the Central Coast was completed for all of the affected parties. In total, 182 employees received severance funded by the CST since its inception, for a total payout of \$2,933,857. Also, holders of 46 contracts received mitigation payments totaling \$10,749,764 for lost contract value and redundant equipment.

All of the mitigation payments related to the first round of provincial government land use decisions in the Central Coast LRMP area have now been made, at a total cost to the CST of \$13,683,621. No payments were made related to subsequent provincial government land use decisions on the Central Coast. Also, no payments were made related the North Coast or Queen Charlotte Islands LRMP areas, because no provincial government land use decisions related to the LRMP process had been made prior to March 31, 2005 that could be shown to have cost loss of jobs or contracts by harvesting contractors. Therefore, the remaining balance of approximately \$12.2 million dollars was transferred from the Mitigation fund to the Matching Fund effective April 1, 2005.

Matching Fund

During 2003 the Advisory Board of the CST approved the creation of 5 Regional Steering Committees (RSCs), based on a combination of Regional District and LRMP area boundaries. These RSCs were established to determine how Community Matching Funds would be allocated. Representation on the RSCs consists of 50% First Nations nominees, and 50% non First Nations community nominees. The RSCs review proposals received directly from communities or First Nations in their area, or from entities supported by those communities or First Nations.

Five RSCs have been created, representing Comox Strathcona, Mount Waddington, the Central Coast, the North Coast and the Queen Charlotte Island / Haida Gwaii. Following is an indication of activity with the RSCs to date:

Status of Community Matching Fund funding requests As at December 31, 2006

| Regional Steering Committee | Total Project Size | Amount Requested of CST | Rejected by CST or abandoned by applicant | Amount still under consideration by CST | Number of Approved Projects | Amount approved by CST | Amount disbursed by CST |
|-----------------------------|----------------------|-------------------------|---|---|-----------------------------|------------------------|-------------------------|
| Central Coast | \$11,736,779 | \$3,422,451 | \$1,353,968 | \$135,000 | 50 | \$1,933,484 | \$1,204,383 |
| Comox Strathcona | \$28,863,526 | \$9,978,575 | \$7,063,133 | \$844,212 | 27 | \$2,071,230 | \$1,635,030 |
| Mount Waddington | \$17,098,863 | \$4,795,177 | \$2,248,773 | \$237,800 | 36 | \$2,308,604 | \$1,240,053 |
| North Coast | \$23,906,154 | \$4,534,833 | \$1,839,414 | \$815,821 | 20 | \$1,879,599 | \$742,502 |
| QCI Haida Gwaii | \$30,605,902 | \$2,139,452 | \$1,234,925 | \$100,000 | 11 | \$804,527 | \$239,097 |
| Total: | \$112,211,224 | \$24,870,487 | \$13,740,212 | \$2,132,833 | 144 | \$8,997,442 | \$5,061,064 |

Some of the approved Matching Fund amounts led to multi-year funding agreements. Recipients must produce progress reports to demonstrate that they are essentially on track with their proposal, and are achieving the projected results, before they are able to get subsequent installments. All projects are approved subject to the applicant receiving a minimum of dollar for dollar matching funds from a source other than the provincial government. In some cases applicants may not be able to source the matching funds, in which case their approval will be rescinded, and the funds made available for other applicants. As of year-end, the Matching Fund account contained approximately 18.5 million dollars.

Ecosystem Based Management Land Use Planning (EBM-LUP) Subtrust

The CST has received a total of 5 requests for funding from the EBM-LUP Subtrust, including one recipient that has applied for and received an increased amount. Four were approved, for a total of \$194,888, and one was rejected. As of December 31, 2006, \$189,888 had been disbursed, and \$5,000 was being held pending receipt of a final progress report.

Economic, scientific and Adaptive Management Development and Planning (ESAMDAP) Subtrust

The CST has received a total of 4 requests for funding from the ESAMDAP Subtrust. All four were approved, for a total of \$132,486. As of December 31, 2005, \$65,300 had been disbursed.

Conclusion

During 2006 the Advisory Board and Steering Committees for the Matching Fund and the ESAMDAP fund were active. The steering committee for the EBMLUP fund did not approve any new funding during 2006. The Trustee was able to distribute funds to the intended beneficiaries of the active accounts, according to the Distribution Objectives of the Deed of Trust that established the CST. As further government land use decisions related to the LRMP process are announced, the Advisory Board and Steering Committees will be ready to respond quickly to proposals to mitigate any negative impacts, and to assist in funding the planning and execution of new sustainable economic initiatives.

THE COAST SUSTAINABILITY TRUST
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2006

THE COAST SUSTAINABILITY TRUST
INDEX TO FINANCIAL STATEMENTS

| | |
|--|------------|
| Auditor's Report | Exhibit A |
| Statement of Financial Position | Exhibit B |
| Statement of Net Assets | Exhibit C |
| Statement of Receipts and Expenditures | Exhibit D |
| Notes to Financial Statements | Exhibit E |
| Schedule of Investments | Schedule 1 |
| Schedule of Funds | Schedule 2 |

Exhibit A

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, 2006, 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, 2006 and its receipts and expenditures for the year then ended in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS

Vancouver, B.C.
February 19, 2007

THE COAST SUSTAINABILITY TRUST
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2006

| <u>ASSETS</u> | <u>2006</u> | <u>2005</u> |
|--|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash - note 5 | \$ 1,503 | \$ 1,254 |
| Marketable securities - Schedule 1 | 18,435,900 | 20,231,726 |
| Interest receivable | <u>266,808</u> | <u>165,931</u> |
| TOTAL ASSETS | <u>\$ 18,704,211</u> | <u>\$ 20,398,911</u> |
| | | |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITY | | |
| Accounts payable and accrued liabilities | <u>\$ 29,978</u> | <u>\$ 15,304</u> |
| TOTAL LIABILITIES | <u>29,978</u> | <u>15,304</u> |
| | | |
| <u>FUND BALANCES</u> | | |
| NET ASSETS | | |
| EBM-LUP fund - Schedule 2 | 67,368 | 66,929 |
| ESAMDAP fund - Schedule 2 | 83,496 | 109,783 |
| Matching fund - Schedule 2 and note 6 | <u>18,523,369</u> | <u>20,206,895</u> |
| TOTAL NET ASSETS | <u>18,674,233</u> | <u>20,383,607</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 18,704,211</u> | <u>\$ 20,398,911</u> |

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 YEAR ENDED DECEMBER 31, 2006

| | <u>2006</u> | <u>2005</u> |
|---|-----------------------------|----------------------|
| EXCESS OF RECEIPTS OVER EXPENDITURES | \$ 561,908 | \$ 435,333 |
| NON-OPERATING TRANSACTIONS | | |
| Disbursements to beneficiaries | (2,271,282) | (1,905,317) |
| NET ASSETS AT BEGINNING OF YEAR | <u>20,383,607</u> | <u>21,853,591</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 18,674,233</u> | <u>\$ 20,383,607</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 YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | 2005 <u>Total</u> |
|---|-----------------------------|-------------------------------|---------------------------------|---|---------------------------------|
| INTEREST RECEIPTS | \$ <u>2,579</u> | \$ <u>4,161</u> | \$ <u>750,993</u> | \$ <u>757,733</u> | \$ <u>604,187</u> |
| EXPENDITURES | | | | | |
| Administration fees | - | - | 350 | 350 | 3,225 |
| Audit fees | 500 | 500 | 14,800 | 15,800 | 13,830 |
| Bank charges and interest | 200 | 215 | 1,010 | 1,425 | 1,245 |
| Consulting | - | - | - | - | - |
| GST expense | 110 | 143 | 11,447 | 11,700 | 10,914 |
| Legal fees | - | - | 2,168 | 2,168 | 1,777 |
| Office | - | - | 1,647 | 1,647 | 1,156 |
| Project analysis | - | - | 32,000 | 32,000 | 27,267 |
| Travel and entertainment | - | - | 301 | 301 | 3,950 |
| Trustee fees | <u>1,330</u> | <u>1,890</u> | <u>127,214</u> | <u>130,434</u> | <u>105,490</u> |
| | <u>2,140</u> | <u>2,748</u> | <u>190,937</u> | <u>195,825</u> | <u>168,854</u> |
| EXCESS OF RECEIPTS OVER EXPENDITURES | \$ <u><u>439</u></u> | \$ <u><u>1,413</u></u> | \$ <u><u>560,056</u></u> | \$ <u><u>561,908</u></u> | \$ <u><u>435,333</u></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 YEAR ENDED DECEMBER 31, 2006

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 Gwaii have negative impacts; and
- b) to mitigate the longer term impacts of implementing these plans.

During prior years, the Trust received \$254,000 in donor-directed funds to be used for Ecosystem Based Management related Land Use Planning ("EBM-LUP Subtrust") in the Trust geographical areas and \$145,000 in donor-directed funds to be used for Economic, Scientific and Adaptive Management Development and Planning ("ESAMDAP Subtrust"). These funds are to be distributed pursuant to specific donor instructions. The Trustee administers the distribution of the funds and prepares the related funding agreements. In accordance with the terms of the EBM-LUP Subtrust and the ESAMDAP Subtrust, these funds are not to be co-mingled with other funds of the Trust.

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 Deed of Trust.

3. SIGNIFICANT ACCOUNTING POLICIES

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's Mitigation Fund, which was used to implement Mitigation measures for workers and contractors, was wound up on March 31, 2005 in accordance with the Deed of Trust.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

The Trust comprised the following funds during the year:

a) 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.

During the prior year, certain monies were transferred from the Mitigation Fund in accordance with the Deed of Trust.

b) EBM-LUP Subtrust

i) Restricted

This donor directed fund is to be used for Ecosystem Based Management related Land Use Planning in the Trust's geographical areas.

ii) Unrestricted

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

c) ESAMDAP Subtrust

i) Restricted

This donor directed fund is to be used for economic, scientific and adaptive management development and planning.

ii) Unrestricted

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

Revenue Recognition

Investment income is 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.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006 Total</u> | <u>2005 Total</u> |
|------|-------------------------|-------------------------|--------------------------|------------------------------|-----------------------|
| Cash | \$ <u>736</u> | \$ <u>717</u> | \$ <u>50</u> | \$ <u>1,503</u> | \$ <u>1,254</u> |

6. MATCHING FUND

The Matching Fund portion (original allocation of \$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 prepared guidelines with respect to the Matching Fund in accordance with the directives in the Deed of Trust and initially allocated the Matching Fund equally to mitigate adverse effects from EBM and LRMP.

During the prior year, in accordance with the Deed of Trust, monies which remained in the Mitigation Fund on March 31, 2005 were transferred to the Matching Fund.

a) To Mitigate the Effects of EBM

As at the end of the fiscal year, there were no clear guidelines to define and quantify the adverse impacts of EBM. Accordingly, none of the \$5,000,000 allocated to mitigate the effects of EBM have been disbursed.

b) To Mitigate the Effects of LRMP

In accordance with the Trust's guidelines, the Trustee has solicited the formation of Regional Steering Committees ("RSC's") representing each of the five distinct geographical areas covered by the Trust. Each RSC is responsible for reviewing and approving proposals presented to the Trustee for funding.

All five RSC's were active during the current year and certain funds were disbursed or committed. The amounts of funds originally allocated to the five RSC's were as follows:

| | |
|---|-----------------------------|
| Central Coast RSC | \$ 3,500,000 |
| Comox Strathcona RSC | 3,500,000 |
| Mount Waddington RSC | 3,500,000 |
| North Coast RSC | 3,500,000 |
| Queen Charlotte Islands/Haida Gwaii RSC | <u>3,500,000</u> |
| | <u>\$ 17,500,000</u> |

The above allocation is prior to any disbursement of funds.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

6. MATCHING FUND, cont'd

In accordance with the guidelines, any funds which had been allocated to the five RSC's, unused by March 31, 2006, were to revert to the restricted Matching Fund allocated to mitigate effects of LRMP. At the discretion of the Trustee and the Advisory Board, these funds remained with the respective RSC's to which they had been originally allocated

The allocations may be reviewed in the future.

In accordance with the Deed of Trust, up to 3% of the initial contribution to the Trust, plus the aggregate income of the Trust, net of Income Taxes, if any, may be used for administrative expenses over the life of the Trust. From the inception of the Trust to December 31, 2006, the Trust's receipts exceeded its administrative expenditures.

7. 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 applied to the Canada Revenue Agency (the "CRA") for a ruling during a prior year.

Although the Rulings Directorate of the CRA declined to provide a ruling in writing, the Trustee was advised verbally that the Trust is a holder of a power of appointment granted by the Government of the Province of British Columbia and accordingly, is exempt from income tax as a quasi-governmental agency administering a government program.

8. GOODS AND SERVICES TAXES

The Trustee has obtained 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 significant concentration of credit risk.

10. SUBSEQUENT EVENTS

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

The Trustee expects that significant amounts of funds will be on hand on March 31, 2007. At a meeting on December 14, 2006, the Trustee and the members of the Advisory Board discussed alternative courses of action. Pursuant to recommendations received from eligible beneficiaries, the Trustee and the Advisory Board decided that all funds remaining on March 31, 2007 will be transferred to a new trust which will have similar guidelines to the Trust and will have the same beneficiaries as the Trust.

The new trust will be administered by the Trustee with the assistance of the same Advisory Board and will retain the existing Regional Steering Committee Structure.

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

10. **SUBSEQUENT EVENTS**, cont'd

In order to facilitate access by eligible beneficiaries to funds in the trust, certain guidelines will be amended as follows:

- a) the contribution limit for any particular project may be raised to \$250,000 from \$100,000, subject to the direction of each Regional Steering Committee; and
- b) for the first \$50,000 of funding for any given project, up to 75% of funds may be provided by the new trust. For any project funding in excess of \$50,000, the current full matching requirement will be retained.

11. **COMMITMENTS**

The Trustee works closely with the RSC's to solicit funding proposals for projects which meet the Trust's guidelines. Upon acceptance of a proposal, the Trustee enters into a funding agreement with the potential recipient. The agreement ordinarily confirms the Trust's commitment for certain disbursements, the expected timing of the disbursements and the criteria for the release of funds.

As at December 31, 2006, the Trust had made disbursements and had committed to make disbursements out of the Matching Fund as follows:

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| Committed to beneficiaries, contingent on availability of matching funds | \$ 3,745,126 | \$ 2,149,637 |
| Irrevocably Committed | 191,250 | 235,003 |
| Disbursed during the year | 2,243,582 | 1,792,829 |
| Disbursed during prior years | <u>2,817,484</u> | <u>1,024,653</u> |
| | <u>\$ 8,997,442</u> | <u>\$ 5,202,122</u> |

As at December 31, 2006, the Trust had made disbursements and had committed to make disbursements out of the EBM-LUP Fund as follows:

| | <u>2006</u> | <u>2005</u> |
|------------------------------|-------------------|-------------------|
| Committed to beneficiaries | \$ 5,000 | \$ 5,000 |
| Disbursed during the year | - | 74,888 |
| Disbursed during prior years | <u>189,888</u> | <u>115,000</u> |
| | <u>\$ 194,888</u> | <u>\$ 194,888</u> |

THE COAST SUSTAINABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

11. **COMMITMENTS**, cont'd

As at December 31, 2006, the Trust had made disbursements and had committed to make disbursements out of the ESAM-DAP Fund as follows:

| | <u>2006</u> | <u>2005</u> |
|-----------------------------|-------------------|------------------|
| Committed to beneficiaries | \$ 67,186 | \$ - |
| Disbursed during the year | 27,700 | 37,600 |
| Disbursed during prior year | <u>37,600</u> | <u>-</u> |
| | <u>\$ 132,486</u> | <u>\$ 37,600</u> |

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | <u>2005</u> <u>Total</u> |
|--|---------------------|---------------------|----------------------|---|-----------------------------|
| National Bank BA Face Value \$34,000 Due January 4, 2006 | \$ - | \$ - | \$ - | \$ - | \$ 33,939 |
| Government of Canada Treasury Bill Face Value \$1,300,000 Due January 12, 2006 | - | - | - | - | 1,283,116 |
| Res Province of Ontario Face Value \$350,000 Due January 19, 2006 | - | - | - | - | 342,407 |
| Res Province of Ontario Face Value \$2,540,000 Due January 19, 2006 | - | - | - | - | 2,489,855 |
| Res Province of Ontario Face Value \$400,000 Due January 19, 2006 | - | - | - | - | 394,460 |
| Government of Canada Treasury Bill Face Value \$250,000 Due January 26, 2006 | - | - | - | - | 246,621 |
| CPN Quebec Hydro Face Value \$742,000 Due February 15, 2006 | - | - | - | - | 728,841 |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | <u>2005</u> <u>Total</u> |
|--|---------------------|---------------------|----------------------|---|-----------------------------|
| <i>carried forward</i> | - | - | - | - | 5,519,239 |
| Royal Bank BA Face Value \$2,681,000 Due March 1, 2006 | - | - | - | - | 2,610,382 |
| Res Province of Ontario Face Value \$2,040,000 Due March 8, 2006 | - | - | - | - | 2,000,036 |
| Government of Canada Treasury Bill Face Value \$296,000 Due March 23, 2006 | - | - | - | - | 291,801 |
| Enbridge Inc. Face Value \$907,000 Due April 12, 2006 | - | - | - | - | 960,150 |
| CIBC BA Face Value \$869,000 Due May 1, 2006 | - | - | - | - | 845,504 |
| Government of Canada Treasury Bill Face Value \$434,000 Due May 18, 2006 | - | - | - | - | 425,815 |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | 2005 <u>Total</u> |
|---|---------------------|---------------------|----------------------|---|----------------------|
| <i>carried forward</i> | - | - | - | - | 12,652,927 |
| Res Province of Manitoba Face Value \$900,504 Due June 5, 2006 | - | - | - | - | 880,000 |
| Farm Credit MTN Face Value \$514,000 Due July 15, 2006 | - | - | - | - | 502,150 |
| Res Province of Ontario Face Value \$2,795,000 Due July 24, 2006 | - | - | - | - | 2,711,497 |
| Province of Ontario Face Value \$801,000 Due July 24, 2006 | - | - | - | - | 870,046 |
| Royal Bank BA Face Value \$205,000 Due August 4, 2006 | - | - | - | - | 199,073 |
| Res Government of Canada Face Value \$1,298,000 Due September 1, 2006 | - | - | - | - | 1,264,116 |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | 2005 <u>Total</u> |
|--|---------------------|---------------------|----------------------|---|----------------------|
| <i>carried forward</i> | - | - | - | - | 19,079,809 |
| CIBC BA Face Value \$424,000 Due September 26, 2006 | - | - | - | - | 410,917 |
| CIBC BA Face Value \$340,000 Due September 28, 2006 | - | - | - | - | 329,443 |
| CIBC BA Face Value \$240,000 Due November 1, 2006 | - | - | - | - | 232,120 |
| Franchise Trust DN Face Value \$70,000 Due January 18, 2006 | - | - | - | - | 69,784 |
| Franchise Trust DN Face Value \$110,000 Due January 11, 2006 | - | - | - | - | 109,653 |
| Franchise Trust DN Face Value \$84,000 Due January 17, 2007 | - | 83,653 | - | 83,653 | - |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | 2005 <u>Total</u> |
|--|---------------------|---------------------|----------------------|---|----------------------|
| <i>carried forward</i> | - | 83,653 | - | 83,653 | 20,231,726 |
| Franchise Trust DN Face Value \$70,000 Due January 17, 2007 | 69,711 | - | - | 69,711 | - |
| Government of Canada Treasury Bill Face Value \$1,800,000 Due January 11, 2007 | - | - | 1,765,638 | 1,765,638 | - |
| Government of Canada Treasury Bill Face Value \$1,811,000 Due January 25, 2007 | - | - | 1,752,782 | 1,752,782 | - |
| Government of Canada Treasury Bill Face Value \$1,677,000 Due April 19, 2007 | - | - | 1,630,872 | 1,630,872 | - |
| Government of Canada Treasury Bill Face Value \$619,000 Due May 17, 2007 | - | - | 597,945 | 597,945 | - |
| Government of Canada Treasury Bill Face Value \$1,874,000 Due June 14, 2007 | - | - | 1,805,621 | 1,805,621 | - |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | <u>2005</u> <u>Total</u> |
|---|---------------------|---------------------|----------------------|---|-----------------------------|
| <i>carried forward</i> | 69,711 | 83,653 | 7,552,858 | 7,622,569 | 20,231,726 |
| Government of Canada Treasury Bill Face Value \$2,000,000 Due October 4, 2007 | - | - | 1,935,168 | 1,935,168 | - |
| CIBC BA Face Value \$832,000 Due Feb 6, 2007 | - | - | 808,602 | 808,602 | - |
| HSBC Investment Certificate Face Value \$1,020,000 Due March 9, 2007 | - | - | 1,020,000 | 1,020,000 | - |
| Res Canada Housing Trust Face Value \$380,000 Due March 15, 2007 | - | - | 366,896 | 366,896 | - |
| CPN Province of Quebec Face Value \$500,000 Due April 1, 2007 | - | - | 489,937 | 489,937 | - |
| Res Province of Manitoba Face Value \$934,100 Due May 16, 2007 | - | - | 919,567 | 919,567 | - |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>EBM-LUP Fund</u> | <u>ESAMDAP Fund</u> | <u>Matching Fund</u> | <u>2006</u> <u>Total</u> | 2005 <u>Total</u> |
|--|-------------------------|-------------------------|-----------------------------|---|-----------------------------|
| <i>carried forward</i> | 69,711 | 83,653 | 13,093,028 | 13,162,739 | 20,231,726 |
| CPN Province of Ontario Face Value \$1,232,000 Due June 2, 2007 | - | - | 1,199,600 | 1,199,600 | - |
| Citibank Canada Discount Note Face Value \$1,000,000 Due July 19, 2007 | - | - | 971,238 | 971,238 | - |
| CPN Province of Ontario Face Value \$814,100 Due August 7, 2007 | - | - | 789,428 | 789,428 | - |
| Citibank N.A Discount Note Face Value \$623,000 Due September 10, 2007 | - | - | 599,503 | 599,503 | - |
| TD Bank Discount Note Face Value \$1,693,000 Due November 13, 2007 | - | - | 1,629,739 | 1,629,739 | - |
| MARKETABLE SECURITIES | <u>\$ 69,711</u> | <u>\$ 83,653</u> | <u>\$ 18,282,536</u> | <u>\$ 18,435,900</u> | <u>\$ 20,231,726</u> |

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

THE COAST SUSTAINABILITY TRUST
SCHEDULE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

| | EBM-LUP Fund | | ESAMDAP Fund | | Matching Fund | | 2006 Total | 2005 Total |
|--------------------------------------|------------------|------------------|------------------|-----------------|----------------------|---------------------|-----------------------------|----------------------|
| | Restricted | Unrestricted | Restricted | Unrestricted | Restricted | Unrestricted | | |
| Balance, beginning of year | \$ 56,492 | \$ 10,437 | \$ 103,050 | \$ 6,733 | \$ 17,448,896 | \$ 2,757,999 | \$ 20,383,607 | \$ 21,853,591 |
| Disbursements to beneficiaries | - | - | (27,700) | - | (2,243,582) | - | (2,271,282) | (1,905,317) |
| Excess of receipts over expenditures | - | 439 | - | 1,413 | - | 560,056 | 561,908 | 435,333 |
| Balance, end of year | <u>\$ 56,492</u> | <u>\$ 10,876</u> | <u>\$ 75,350</u> | <u>\$ 8,146</u> | <u>\$ 15,205,314</u> | <u>\$ 3,318,055</u> | <u>\$ 18,674,233</u> | <u>\$ 20,383,607</u> |

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