

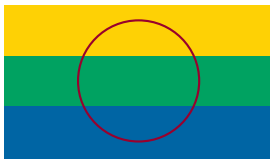
PEGUIS FIRST NATION ***SURRENDER CLAIM TRUST***

ANNUAL ACTIVITY REPORT 2012



Mission Statement

"To manage and safeguard the Trust so it will benefit the people of Peguis for all time. We are dedicated to apply our resources to support Peguis, to build a strong nation, to elevate the quality of life for our people and to preserve and protect the legacy that defines us as a sovereign nation."



PEGUIS FIRST NATION SURRENDER CLAIM TRUST

TRUSTEES

Community Fund

Hal Sutherland - Chair
Katina Cochrane
Lloyd Sinclair
Robert Delorme

Financial

Gerald McCorrister - Chair
Eric Bear
Errol Wilson
Elva McCorrister
Bill Willms - Corporate

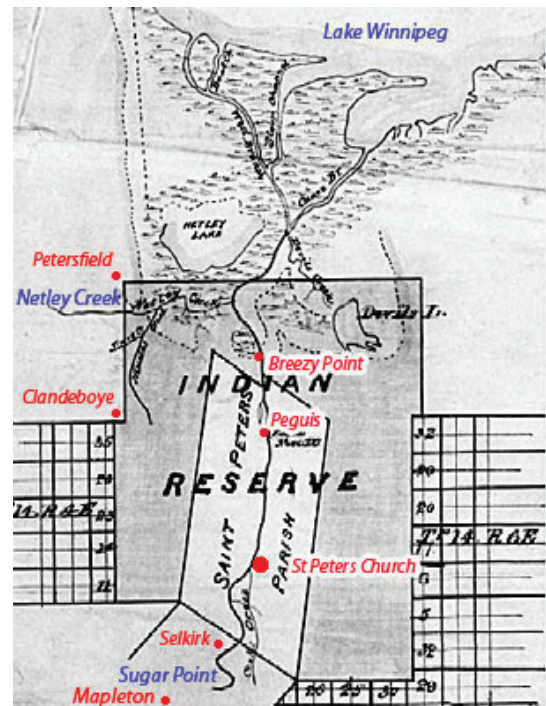
Background

On June 29, 1998, after 91 years of struggle by Peguis First Nation, Canada confirmed it agreed with Peguis that the 1907 surrender of the St. Peter's Reserve was void and legally invalid due to Canada's failure to comply with requirements of the Indian Act of 1906. Canada and Peguis entered into negotiations to compensate Peguis for its loss of land and economic loss as a result of this illegal surrender.

On June 13, 2009, Peguis members voted in favour of the proposed settlement claim and the agreement was ratified by the parties on October 4, 2010.

The total settlement amount was \$126,094,903. Upon payment of settlement costs and legal fees Canada deposited \$118,750,000 in to the Peguis First Nation Surrender Claim Trust. Of this amount \$10,500,000 was set aside for a per-capita payment to the beneficiaries. The duties and responsibilities of the Trustees are contained in the Trust Agreement.

Each year the Trustees are required to provide Chief and Council and upon request, any member of Peguis First Nation with financial statements for the Trust as well as a report on the administration of the Trust. The report describes the income and expenditures of the Trust, the activities of the trustees and a report on the investments of the Trust.



Financial Operations Report

Value of the Trust

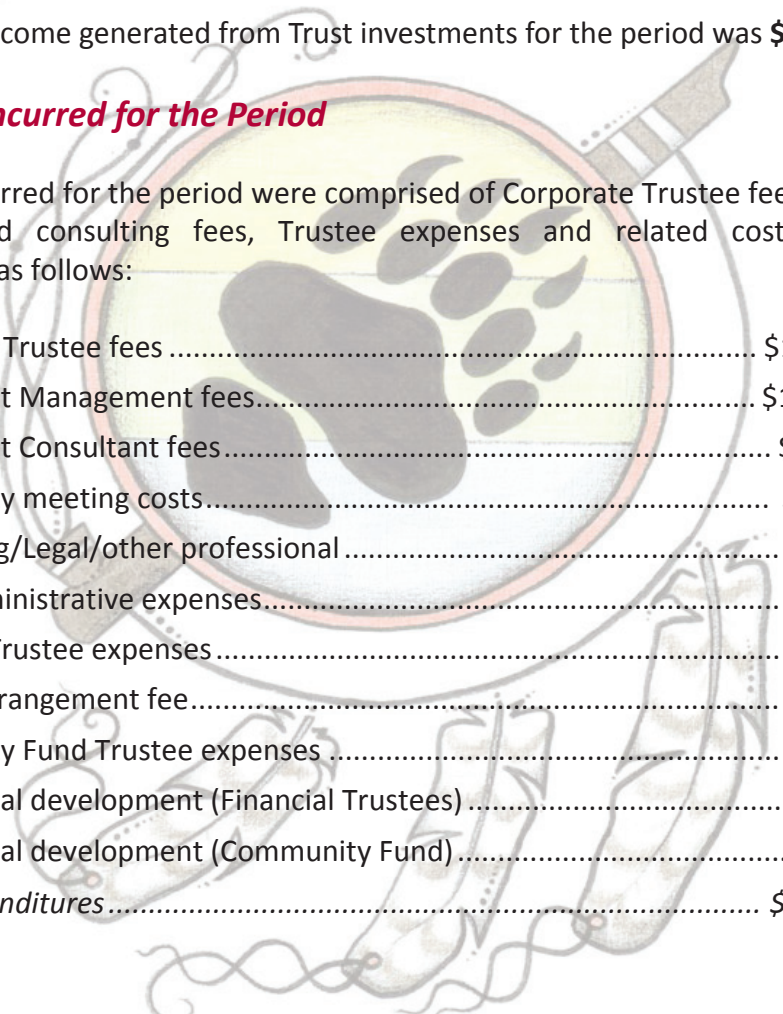
The value of the Trust as at December 31, 2012 was **\$110,963,077**.

Investment Income Received for the Period

The investment income generated from Trust investments for the period was **\$3,042,216**.

Expenditures Incurred for the Period

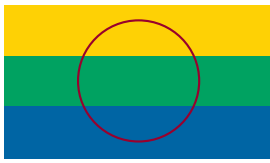
Expenditures incurred for the period were comprised of Corporate Trustee fees, investment management and consulting fees, Trustee expenses and related costs and other professional fees as follows:



| | |
|---|------------------|
| Corporate Trustee fees | \$160,355 |
| Investment Management fees..... | \$146,444 |
| Investment Consultant fees..... | \$77,998 |
| Community meeting costs..... | \$41,325 |
| Accounting/Legal/other professional | \$40,109 |
| Other administrative expenses..... | \$34,781 |
| Financial Trustee expenses..... | \$29,306 |
| TD loan arrangement fee..... | \$22,500 |
| Community Fund Trustee expenses | \$16,803 |
| Professional development (Financial Trustees) | \$5,552 |
| Professional development (Community Fund)..... | <u>\$4,813</u> |
| <i>Total Expenditures</i> | <i>\$579,986</i> |

Per Capita Distributions

An amount of **\$10,500,000** was approved by the Initial Trustees (Chief & Council) in 2010 to fund per capita payments to eligible Peguis Band members. The distributions are continuing and in 2012, eighty applications were processed for a total pay-out of **\$85,000.00**



PEGUIS FIRST NATION SURRENDER CLAIM TRUST

Expenditures Beneficial to the Beneficiary

The following expenditures were considered and approved by the Community Fund Trustees and/or Chief & Council and Membership. Trustees can approve funding directions up to \$75,000. Amounts over \$75,000 to \$250,000 need approval from both Trustees and Chief and Council. Funding directions over \$250,000 need approval from Trustees, Chief & Council and Membership.

| Recipient | Amount | Purpose |
|--|--------------------|--------------------------------------|
| Peguis Arena Committee | \$10,600,295 | Construction of Arena |
| Peguis Housing Authority | 3,500,000 | Sustainable Housing Plan |
| Rath & Company Barristers & Solicitors | 249,000 | Kapyong Challenge |
| Chief Peguis Investment Corporation | 247,000 | Investment Company |
| Rath & Company Barristers & Solicitors | 240,000 | Flood Litigation |
| Bipole III..... | 189,000 | Duty to consult & accommodate PFN |
| Peguis School Board | 87,308 | Training Facility |
| Peguis Treaty Committee..... | 70,000 | Treaty Celebrations |
| B & I Excavating | 20,720 | Excavator Purchase |
| Peguis Youth Committee | 9,000 | Youth Gathering |
| Peguis Senior Centre | 7,500 | Elder's Celebration |
| Total Funding Approved for 2012 | \$15,219,823 | |

Line of Credit

In order to preserve the Trust Property, the Financial Trustees secured a **\$15,000,000** line of credit with the TD Commercial Bank. The line of credit is being utilized to fund the arena and housing projects as well as other as yet undetermined projects.

As of December 31, 2012, the balance of the line of credit was **\$2,340,284**.



Annual Investment Review Summary

The investment policy of the Peguis Surrender Trust was implemented in early 2012 under the investment management of three firms being Beutel Goodman and Company, Mawer Investment Management and a bond indexing strategy with TD Asset Management. Over the last three calendar quarters ending December 31st, 2012, the Trust portfolio has provided a very solid **4.96%** return or a gain of **\$5,013,743**. By comparison, this nine month return outpaced the market benchmark return by **1.39%** in this short timeframe and has more than covered the net outflows of **\$1,011,575** since inception. The most significant contribution has come from the investment manager's equity management with all equity asset classes outperforming their respective indices and the managers achieving 1st quartile equity returns over all periods when compared to their peers.

Combined Holdings - Performance since Inception (Q2/12) as at December 31, 2012

| Asset Classes | Surrender Trust Inception Return Ending Dec 2012 | Market Returns by Asset Class | Variance To Market |
|---------------------------|--|----------------------------------|-----------------------|
| Canadian Fixed Income | 3.70% | 3.82% | -0.12% |
| Canadian Equity | 6.97% | 2.68% | +4.29% |
| US Equity | 2.63% | 2.60% | +0.03% |
| International Equity | 10.12% | 5.39% | +4.73% |
| Total Trust Return | 4.96% | 3.57% | +1.39% |

Performance by Investment Manager as at December 31, 2012

| Investment Manager | Inception Return (since Q2/12) | Inception Benchmark Return | Variance To Market |
|-----------------------------|------------------------------------|-------------------------------|-----------------------|
| Beutel Goodman & Company | 4.97% | 3.82% | +1.15% |
| Mawer Investment Management | 6.23% | 3.49% | +2.74% |
| TD Bond Index Fund | 3.82% | 3.82% | 0.00% |
| Overall Combined | 4.96% | 3.57% | 1.39% |

Portfolio Valuation since Inception (Q2/12) as at December 31, 2012

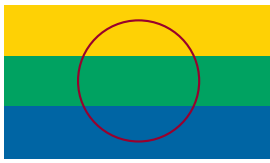
| | TD Bond Index Fund | Beutel Goodman & Company | Mawer Investment Management | Combined Holdings |
|-----------------------|-----------------------|-----------------------------|-----------------------------------|----------------------|
| Beginning Valuation | \$39,815,511 | \$34,688,154 | \$34,867,267 | \$109,370,932 |
| Net Transfers | -\$844,575 | -\$167,000 | \$0 | -\$1,011,575 |
| Appreciation | \$1,404,782 | \$1,572,484 | \$2,036,466 | \$5,013,743 |
| Valuation @ Dec 31/12 | \$40,375,728 | \$36,093,638 | \$36,903,733 | \$113,373,100 |

**Valuations may differ slightly to other financial reporting as a result of differences in accrual rates and foreign exchange conversion rates.

We are pleased to report that each of the Investment Managers and the Trust as a whole remain in compliance with the Statement of Investment Policies and Guidelines as of December 31, 2012.

In closing, we commend the Trustees on their commitment and hard work and are extremely pleased with the results of the Trust through a relatively volatile 2012. T.E. Wealth will continue to apply a due diligent process in the monitoring of the investment managers and will advise the Peguis First Nation on an ongoing basis as to their status relative to expectations.

Presented and prepared by T.E. Wealth as Financial Advisor to the Peguis First Nation Surrender Claim Trust



PEGUIS FIRST NATION **SURRENDER CLAIM TRUST**

Trustee Activities

The current Community Fund Trustees and Financial Trustees were elected in May of 2011. In 2012, Financial Trustee Clarence Daniels and Community Fund Trustee Ralph Sutherland resigned as Trustees. Two replacement Trustees will be elected in accordance with the procedures set out in the Trust. The electoral process is the responsibility of Chief & Council.

Chief & Council also has to appoint a Chartered Accountant to sit as a Financial Trustee.

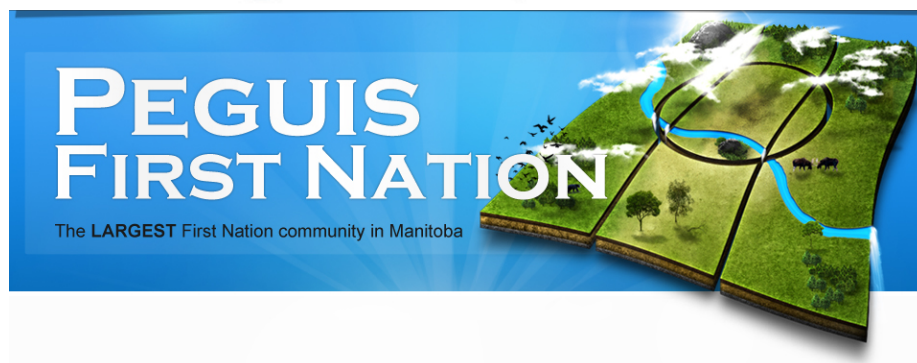
Trustee Meetings

The Trustees met on a number of occasions throughout the period in order to perform their duties, which includes considering and approving proposals, reviewing investments, arranging for the preparation of audited financial statements, and to continue to develop policies and procedures to govern the activities of the Trust.

The following is a breakdown of meetings of the Trustees for 2012:

- 18 combined Financial/Community Fund meetings
- 3 Membership Information Meetings
- 1 Membership General Meeting
- 1 Annual General Membership Meeting
- 1 Petition Meeting
- 3 Community Fund Trustee Meetings
- 4 Financial Trustee Meetings

The travel costs associated with these meetings are based on Peguis First Nation Travel Policy. The expenses were are follows: Financial Trustees **\$29,306** / Community Fund Trustees **\$16,803**



HONORARIUM

Are Trustees Entitled To an Honorarium?

Peguis Surrender Claim Trustees
were elected on May 13, 2011 to
administer the Trust.

The Trust is a legal document which requires tremendous care and due diligence to administer. Trustees have significant responsibility with legal implications to ensure that it is managed properly. Trustees are entitled to an honorarium based on lost wages and the responsibility of looking after the Trust Property as stated in the Trust Agreement. Trustee honorarium has not been approved yet by the membership. We hope the following will clear up any misconceptions.

Honorarium Q & A

Q: Are the Trustees entitled to an honorarium?

A: Yes, as stated in the Trust Agreement Section 8.2, the Trustees are entitled to fair and reasonable compensation.

Q: Does the membership decide what compensation the Trustees are to receive?

A: Yes, the members decide as stated in Section 14 of the Trust.

Q: What is the compensation based on?

A: The compensation is based on income loss and responsibility of the Trust Property under the Trustees' administration.

Q: What do the Trustees consider fair and reasonable compensation?

A: The Trustees are asking the membership to consider \$300 per meeting for Trustees and an extra \$200 per meeting for the Chairpersons.

Q: Why would the Chairpersons receive the extra honorarium?

A: They have a number of extra responsibilities, including: acting as spokespersons for the Trust; accountability for their actions; keeping beneficiaries informed; overseeing and approving per-capita payouts; and assisting in the administration of the Trust. The chairperson positions are determined yearly.

Q: What do the Treaty Land Entitlement (TLE) Trustees receive for compensation?

A: The TLE Trustees receive \$300 per meeting and the Chairpersons receive an extra \$200 per meeting. These amounts were approved by the membership.

Q: Why are the Surrender Claim Trustees asking for the same amounts?

A: Both Trusts have a high degree of responsibility and accountability. The Surrender Claim Trustees feel that the compensation should be the same, which is also comparable to other First Nation Trusts across Canada.

Q: How many meetings did the Trustees hold in 2011?

A: There were a total of 41 meetings held in 2011. The meetings were held at an accelerated pace to ensure that the Trust was operational as soon as possible.

Q: How many meetings have the Trustees held in 2012?

A: There have been 27 meetings held. We are at the point where most of the setup of the Trust has been done.

Q: How many meetings per year do the Trustees anticipate?

A: Now that we have invested the monies and laid the groundwork for the administration, it is anticipated that the yearly meetings will not exceed 18. The Trustees are committed to not exceed 18 duly convened trust business meetings per year.

Q: Have the Trustees been collecting any money from other sources while attending meetings for the Trust?

A: No, the Trustees have taken time off from their regular jobs to attend Trust meetings or the meetings were held after work hours or on weekends.

Q: What did the majority of the meetings consist of?

A: Several issues that affect the Trust were addressed, including training, trust administration, per-capita issues, funding directions, information and general meetings.

Q: When will you hold a vote for the honorarium?

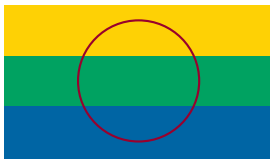
A: First we would like to consult with the community and hold a vote soon after.

Q: What are some of the major accomplishments by the Trustees since being elected?

- A: - Membership-approved arena construction and housing plan.
- Protected the capital (\$108 million) and established a line of credit for projects.
- Planned and implemented the Trust quickly to invest monies and make funds available for funding directions.
- Interviewing and hiring Corporate Trustee, Financial Advisors, Money Managers, Investment Managers and Audit Firms.

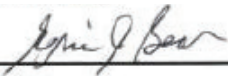
Q: Has it affected the Trustees' commitment to not have the honorarium approved?

A: The Trustees care about our community and have continued to serve faithfully despite not having any honorarium to date. They are confident that the membership will approve fair and reasonable compensation. The Trustees are not letting the compensation issue affect the operation of the Trust.



PEGUIS FIRST NATION **SURRENDER CLAIM TRUST**

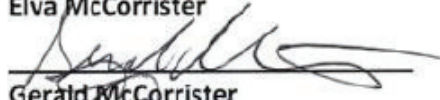
WE CERTIFY THAT, to the best of our information, knowledge and belief that the information contained in this annual report are true and that all expenditures and investment of the Trust Property were properly documented and authorized in compliance with the Trust Agreement.



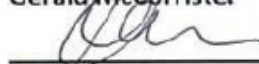
Eric J. Bear



Elva McCorrister



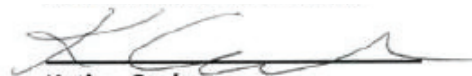
Gerald McCorrister



Errol Wilson



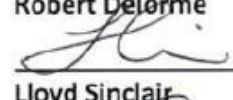
Bill Willms, Corporate Trustee



Katina Cochrane



Robert Delorme



Lloyd Sinclair



Harold J. Sutherland

Peguis First Nation Surrender Claim Trustees

