

NORTHERN ONTARIO HERITAGE FUND CORPORATION
ANNUAL REPORT
2020-2021



Lieutenant Colonel The Honourable Elizabeth Dowdeswell
Lieutenant Governor of the Province of Ontario

May it please Your Honour:

For the information of Your Honour and the Legislative Assembly, I have the privilege of presenting the annual report of the Northern Ontario Heritage Fund Corporation for the fiscal year ending March 31, 2021.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg Rickford". The signature is stylized with a large initial "G" and a long, sweeping horizontal stroke at the end.

Hon. Greg Rickford
Chair, Northern Ontario Heritage Fund Corporation
Minister of Northern Development, Mines, Natural Resources
and Forestry

Submitted to the
LIEUTENANT GOVERNOR IN COUNCIL

Date: OCTOBER 7, 2021

Introduction from Greg Rickford, Board Chair

Over a year and a half later, the impact of COVID-19 is still felt throughout our province. Yet, despite the challenges we have encountered, our northern resilience continues to carry us forward.

As we rebuild our northern economy, the Northern Ontario Heritage Fund Corporation (NOHFC) will play a vital role. Since June 2018, the NOHFC approved 3,045 projects, delivered more than \$315 million for the people of Northern Ontario, and created or retained 4,771 direct jobs.

After gathering feedback from northern municipal leaders, Indigenous partners, non-profits and businesses on modernizing the NOHFC, our government launched new and improved programs. These programs better meet northerners' unique needs by supporting more projects in small rural communities, addressing skilled labour shortages, and making it easier for more people and businesses to apply.

Over the next two years, our government will invest an additional \$50 million in the NOHFC to support investments in infrastructure, culture, economic development and training.

Last year, during the height of COVID-19, our government launched the short-term Northern Ontario Recovery Program (NORP) to help northern businesses meet new public health guidelines. Grants issued under the program supported the purchase of personal protective equipment, safety and social distancing installations, and other essential measures.

We have approved more than \$26 million in NORP funding for approximately 1,400 businesses across multiple sectors, including tourism, food service and retail. NORP is rebuilding consumer confidence and fostering tangible economic recovery across the north.

I am proud of the NOHFC and grateful to the people who work there. The NOHFC makes a significant, positive difference in our northern communities. I look forward to continued collaboration with the NOHFC and our other partners to stimulate growth and opportunities in Northern Ontario while building strong and resilient communities.

A handwritten signature in black ink, appearing to read 'Greg Rickford', with a stylized, flowing script.

Greg Rickford
Chair, Northern Ontario Heritage Fund Corporation
Minister of Northern Development, Mines, Natural Resources and
Forestry

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NOHFC Board of Directors as of March 31, 2021

POSITION	NAME of DIRECTOR	BOARD APPOINTMENT TERM	LOCATION DIRECTOR IS FROM
Chair	Rickford, Greg	29-Jun-2018 - N/A	Keewatin
Vice Chair	Sinclair, David	18-Dec-2018 - 18-Dec-2021	Kenora
Member	Biasucci, Salvatore (Sam)	29-Aug-2019 – 28-Aug-2021	Sault Ste. Marie
Member	Chirico, Peter	29-Aug-2019 – 28-Aug-2021	North Bay
Member	Cornell, Kim	25-Oct-2019 – 24-Oct-2021	Devlin
Member	Fox, Michael	06-Jun-2019 – 05-Jun-2022	Thunder Bay
Member	Blenkarn, Tonia	24-Apr-2020 – 23-Apr-2022	Pointe Au Baril
Member	Marcil, Laurie	09-Jan-2020 – 08-Jan-2022	North Bay
Member	Kamphof, Bernie	16-Apr-2020 - 15-Apr-2022	Murillo
Member	Slade, Fred	31-Jan-2019 – 30-Jan-2022	Sudbury
Member	Spinney, Bill	09-Jan-2020 – 08-Jan-2022	Nobel
Member	Mitchell, Donald	11-Jun-2020 – 10-Jun-2022	Sault Ste. Marie
Member	Ballance, Kimberly	18-Jun-2020 – 17-Jun-2022	Ear Falls
Member	Belanger, Lucy	01-Oct-2020 – 30-Sep-2022	Thunder Bay
Member	Prodaniuk, Sue	26-Nov-2020 – 25-Nov-2022	Thunder Bay
Member	Nisly, Andrew	27-Aug-2020 – June 2, 2021	Sioux Narrows

The Northern Ontario Heritage Fund Corporation (NOHFC)

The NOHFC was established in 1988, with a mandate to promote and stimulate economic development initiatives in Northern Ontario by providing financial assistance to projects that stabilize, diversify and foster the economic growth of the region.

The Northern Ontario Heritage Fund Corporation (NOHFC) is a board governed agency established under the enabling legislation of the *Northern Ontario Heritage Fund Act*. The NOHFC has an appointed Board of Directors, chaired by the Minister of Northern Development, Mines, Natural Resources and Forestry (the Ministry changed from Energy, Northern Development and Mines on June 18, 2021). NOHFC's objectives are set out in the *Northern Ontario Heritage Fund Act* as follows:

- (a) to advise and make recommendations to the Lieutenant Governor in Council on any matter relating to the growth and diversification of the economy of Northern Ontario;
- (b) to promote and stimulate economic initiatives in Northern Ontario; and
- (c) to commission studies and enter into contracts in connection with the objects set out in clauses (a) and (b) above.

The Corporation provides funding toward approved projects in the territorial districts of Northern Ontario, namely Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Vision

NOHFC will be a catalyst for key strategic investments to stimulate economic development and diversification in Northern Ontario.

Mission

To partner with communities, not-for-profits, businesses, and entrepreneurs across Northern Ontario to create jobs and strengthen the economy.

Guiding Principles

The following principles provide overall program direction throughout NOHFC's day to day operations, irrespective of changes in its goals, requirements or resources.

Recognition of Northern Ontario's Unique Circumstances

The renewed NOHFC programs and initiatives will continue to be an important means of recognizing the unique needs of Northern Ontario, in the support of a strong resilient Ontario. NOHFC enhanced its new programs and services in response of today's path to recovery to build a stronger economy.

Adaptability

The strategic planning process is an ongoing process that provides NOHFC with a management tool for adapting to changes in the future.

Reflective, Flexible and Forward-Thinking

It is the intent that the NOHFC Board of Directors will review the strategic priorities and plans, at minimum, on an annual basis. This year, the Board conducted a thorough analysis through the program renewal process for NOHFC that has been reflective of the changes required to support economic growth in the North.

Inclusiveness

NOHFC will continue to develop and deliver its programs and initiatives in a manner that recognizes the needs of the North's diverse communities including, but not limited to, Indigenous communities and individuals, and the North's other demographic groups.

Strategic Priorities

Throughout the strategic development of the renewed NOHFC programing launched in February 2021, several priorities were identified which NOHFC will support through its programming. As a subset of the NOHFC renewed programs, NOHFC will support the following strategic project categories including:

Innovation, Research and Development, and Commercialization

Support applied research and development projects and initiatives that lead to innovative products and services with commercialization potential.

- Support and encourage partnerships among educational institutions, research organizations, and industry to develop and grow innovative products and industries in Northern Ontario.
- Support the commercialization of ideas and innovation in partnership with northern stakeholders.

Creativity, Productivity and Entrepreneurial Development

Support an environment that promotes creativity, productivity and entrepreneurial development.

- Support collaboration with educational institutions and industry to promote productivity and entrepreneurial development.
- Assist northern stakeholders to attract and retain a highly skilled and creative workforce.
- Provide assistance to entrepreneurs at various stages of growth.

Partnerships and Collaboration

Maximize opportunities to leverage NOHFC funding through partnerships and collaboration to ensure the success of projects and sustainable economic outcomes.

- Engage leaders in economic development discussions to increase awareness, knowledge and access to NOHFC programs.
- Support projects that demonstrate collaboration and partnership amongst public and private sector organizations in Northern Ontario.

- Work collaboratively with other funding partners to assist in the development and funding of projects that result in job creation and support a growing and sustainable Northern Ontario economy.

Internally at NOHFC, there is a continued focus on:

Organization Development and Renewal

Engaging in continuous improvement and human resource development to improve the efficiency, effectiveness, access and delivery of NOHFC programs as well as improve performance measurement.

- Continued development of information technology capabilities and enhance existing systems to improve access for clients to NOHFC programs and NOHFC staff to program statistics.
- Implement regular, ongoing dialogue between the NOHFC Board and staff to plan and engage in strategic thinking in the new and emerging opportunities and key government initiatives.
- Develop business approaches and best practices that allow staff and program delivery partners to proactively communicate and work with stakeholders to promote and facilitate access to NOHFC programs.
- Provide the tools and training to enable staff and the Board to fulfill their roles and responsibilities effectively in an increasingly demanding environment.

Awareness, Education and Recognition

Develop effective marketing, communication, and outreach tools that increase awareness, understanding and recognition of NOHFC, its programs and processes.

- Develop effective marketing and communications tools that increase awareness and recognition of NOHFC and its programs.
- Develop effective marketing and communications tools to educate targeted clients to improve access to NOHFC programs.

NOHFC Support Programs

During the 2020-2021 fiscal year, NOHFC renewed its funding programs to respond to the unique needs of Northern Ontario, and to ensure greater alignment with broader provincial economic priorities.

On February 11, 2021, NOHFC launched the following streamlined programs to help increase economic develop and job creation in the North:

Invest North Program - o Innovation Stream - o Investment Stream	Community Enhancement Program - o Rural Enhancement Funding Stream - o Enhance Your Community Stream
People & Talent Program - o Indigenous Workforce Development Stream - o Workforce Development Stream	Cultural Supports Program - o Community Events Stream - o Film & Television Stream

Overall, the renewed programs are designed to:

- Make it easier for more people and businesses to apply;
- Support more projects in rural northern communities;
- Target existing and emerging markets;
- Provide more work opportunities for Indigenous people; and
- Help grow a skilled workforce, including skilled trades.

On September 30, 2020, new applications to NOHFC's prior programming was concluded. However, applications received by September 30, 2020, have continued through the project review and approval process.

In response to the COVID-19 pandemic, on October 1, 2020 NOHFC launched the time limited Northern Ontario Recovery Program. The program provided Northern Ontario businesses the opportunity to receive a conditional contribution up to \$25,000 to help offset expenses incurred to meet the mandated public health requirements as a result of the COVID-19 pandemic.

NOHFC Performance Measures – Targets and Results

The NOHFC measures and tracks the overall performance of the Agency through a series of key performance indicators as detailed below:

Total Jobs to Be Created or Retained April 1, 2020 – March 31, 2021

Job Category	Total Jobs Supported through NOHFC Approved Investments
Jobs Created or to be Created	905
Jobs Retained or to be Retained	181
Internship Jobs	260
Jobs to be created as a result of Infrastructure Project Activities	446
Total	1,792

Five Year Comparison of Jobs either Created or Retained Through NOHFC Investments

Fiscal Year	Jobs to be Created and Retained	Targeted Jobs to be Created and Retained	Targeted new Jobs Created Only
2016-2017	4,184	3,500	1,499
2017-2018	3,914*	3,500	1,581
2018-2019	2,307	3,500	1,111
2019-2020	3,542	3,000	2,010
2020-2021	1,792	3,000	1,165

*The results for 2017-18 were adjusted to reflect a NOHFC investment by NOHFC which was rescinded when the project was instead funded by Northern Development, Mines, Natural Resources and Forestry.

Total Dollars Leveraged from NOHFC Investments

Fiscal Year	Actual	Target
2016-2017	4.42	3
2017-2018	4.13	3
2018-2019	4.15	3
2019-2020	3.91	3
2020-2021	3.54	3

Five Year Comparison of Number of Projects Approved

Fiscal Year	Total Projects Approved
2016-2017	836
2017-2018	854
2018-2019	610
2019-2020	887
2020-2021	1,944

With the focus for the 2020-2021 fiscal year on new program development and implementation as well as providing support to help the Northern Ontario economy to begin recovering from the negative impacts of the pandemic, there was a decline in the number of jobs created and or retained from regular program funding. However, NOHFC approved funding for nearly 2,000 different projects during the fiscal year, of which nearly 1,400 were for the Northern Ontario Recovery Program projects. These projects help businesses across the North offset some of the financial burdens the new safety measures and restrictions had caused them, allowing them to move forward and either continue to operate or re-open in a manner that was safe for both its customers and its employees.

Despite the lower job numbers, NOHFC leverage ratio was 3.54, higher than its target of 3.0, indicating that the investments made by NOHFC are stimulating investments by others more than expected fostering economic growth in Northern Ontario.

NOHFC Financial Performance – Target and Results

Schedule of Revenues, Expenses, and Accumulated Surplus by the NOHFC for the Three Years Ending March 31

	2021 Budget (000's)	2021 Audited (000's)	2020 Audited (000's)	2019 Audited (000's)
<u>Revenue</u>				
Province of Ontario grant (Note 1)	\$75,000	\$82,500	\$75,000	\$100,000
Interest on cash and cash equivalents (Note 2)	1,637	1,420	5,375	5,775
Interest on loans receivable (Note 3)	1,782	873	1,764	2,245
Recoveries (Note 4)	-	1,625	1,545	1,775
Total Revenue	78,419	86,418	83,684	109,795
<u>Expenses</u>				
Conditional Contributions (Note 5)	103,092	85,029	112,019	105,866
Credit losses (Note 6)	5,351	1,341	3,637	451
Administration:				
Salaries, Wages and Benefits	2,510	2,457	2,254	2,126
Transportation & Communication (Note 7)	230	24	62	108
Services (Note 8)	1,950	1,462	1,317	1,419
Management Fees	3,000	3,067	2,367	2,088
Marketing (Note 8)	500	-	1	327
Supplies and Equipment	50	7	11	23
System Modernization (Note 9)	1,800	127	-	-
Amortization of Tangible Capital Assets	-	-	-	2
Total Expenses	118,483	93,514	121,668	112,410
Annual Deficit	(40,064)	(7,096)	(37,984)	(2,615)
Accumulated Surplus, beginning of year		296,344	334,328	336,943
Accumulated Surplus, end of year		\$289,248	\$296,344	\$334,328

Notes to the Schedule of Revenue, Expenses and Net Investment and Analysis of Variances to Budgeted and Prior Year Amounts

Note 1 – As a result of the significant uptake of the Northern Ontario Recovery Program, the Ministry increased the transfer payment to the NOHFC for fiscal 2020-2021 by \$7.5 million.

Note 2 – Interest earned on cash and cash equivalents was lower than expected due to the drastic decrease in interest rates in the beginning of the fiscal year and due to the change in cash flow management of the annual allocation from the Ministry.

Note 3 – As a result of NOHFC offering six-months of loan deferral and interest relief support, interest earned on loan receivables was lower than budget and lower compared to prior years. The loan deferral and interest relief support was offered to all loan recipients to help offset the financial burden recipients were faced with as a result of the COVID-19 pandemic.

Note 4 – Recoveries represents the prior-year provision for credit loss and conditional contribution recoveries.

Note 5 – Conditional contributions were lower than the budget and the prior fiscal year. Due to the number of uncertainties NOHFC funding recipients faced as a result of the COVID-19 pandemic, projects were not completed as planned by funding recipients. Project completion extensions were also granted to help funding recipients navigate through the economic uncertainties of the pandemic. This resulted in a decrease in funding recipient's requests for reimbursement than budgeted and compared to prior years, creating a lower than expected expense amount.

Note 6 – Credit losses expense was lower than budget and compared to the prior year. NOHFC's COVID-19 loan deferral and interest relief support proved to be of assistance for most NOHFC loan holders. Once the deferral and relief support period ended, the majority of loan repayments recommenced without issue, resulting in lower than budgeted credit losses expenses and lower compared to the prior year when the impacts of the COVID-19 pandemic on the NOHFC loan portfolio were unknown. In addition, the budgeted credit losses provision was based upon an anticipated higher loan portfolio balance than actual. With project delays due to the pandemic, the loan portfolio did not grow as expected thus resulting in a lower credit loss expenses than budgeted.

Note 7 – Transportation and communication expense continues to be lower than budgeted as a result of NOHFC Board meetings being held virtually during the COVID-19 pandemic.

Note 8 – Services and Marketing expense was lower than budgeted as NOHFC focused its resources on the Northern Ontario Recovery Program and the development and implementation of the new programs during the fiscal.

Note 9 – NOHFC's Information Technology system modernization project was initially planned to begin and be completed during the fiscal year. After project planning and information gathering, the project plan and timelines were adjusted. The budgeted expense for the systems modernization project has been reprofiled over the next two fiscal years to reflect the updated project plan.

3-Year Comparison of Revenue and Expenses

Fiscal Year	Revenue	Expenses	Revenue Over Expenses (Expenses Over Revenue)
2018-2019	\$109,795	\$112,410	(\$2,615)
2019-2020	\$83,684	\$121,668	(\$37,984)
2020-2021	\$86,418	\$93,514	(\$7,096)

Summary of Administrative Expenses for the Year Ended March 31, 2021

Expense	Total	Percentage of Total Expenses
Salaries and Benefits	\$2,457	34.4%
Transportation and Communication	24	0.3%
Services	1,462	20.5%
Management fees	3,067	42.9%
Marketing	-	0.0%
Supplies and Equipment	7	0.1%
System Modernization	127	1.8%
Amortization of Tangible Capital Assets	-	0.0%
Total	\$7,144	

3-Year Comparison of Administrative Costs

Expense	2018-2019	2019-2020	2020-2021
Salaries and benefits	\$2,126	\$2,254	\$2,457
Transportation and communication	108	62	24
Services	1,419	1,317	1,462
Management fees	2,088	2,367	3,067
Marketing	327	1	-
Supplies and equipment	23	11	7
System Modernization	-	-	127
Amortization of tangible capital assets	2	-	-
Total	\$6,093	\$6,012	\$7,144

On June 18, 2021, Ministry changes were made and NOHFC became part of the Ministry of Northern Development, Mines, Natural Resources and Forestry which continues to be led by Minister Rickford. The 2020-2021 financial statements presented below were already reviewed and approved by the NOHFC Board of Directors when the change to the Ministry was made, therefore the statements still refers to Ministry of Energy, Northern Development and Mines.

Financial Statements of

**NORTHERN ONTARIO HERITAGE FUND
CORPORATION**

For the year ended March 31, 2021

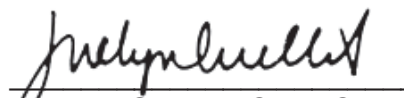
Northern Ontario Heritage Fund Corporation
Year ended March 31, 2021**Responsibility for Financial Reporting**

The accompanying financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC) have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 18, 2021.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded, and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of members who are not employees/officers of NOHFC generally meets periodically with management and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.


John Guerard, CPA, CA
Executive Director
Jocelyn Ouellet, CPA, CMA
Senior Corporate Controller



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

INDEPENDENT AUDITOR'S REPORT

To the Northern Ontario Heritage Fund Corporation

Opinion

I have audited the financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC), which comprise the statement of financial position as at March 31, 2021, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NOHFC as at March 31, 2021 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the NOHFC in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the NOHFC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless NOHFC either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NOHFC's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 NOHFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NOHFC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the NOHFC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Toronto, Ontario
June 18, 2021

Susan Klein, CPA, CA, LPA
Assistant Auditor General

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Financial Position

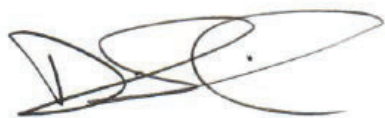
March 31, 2021, with comparative information for 2020

(\$000s)	2021	2020
Financial Assets		
Cash and cash equivalents (note 3)	\$ 108,634	\$ 204,259
Accrued interest receivable	91	784
Loans receivable (note 4)	28,002	28,750
Due from Province (note 5)	157,500	75,000
	294,227	308,793
Financial Liabilities		
Accounts payable and accrued liabilities (note 6)	4,979	12,449
Net financial assets	289,248	296,344
Accumulated Surplus	\$ 289,248	\$ 296,344

Commitments (note 8)

The accompanying notes are an integral part of these statements.

On behalf of the Board:



Co-Chair



Audit Committee

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

(\$000s)	Budget 2021	2021	2020
Revenue:			
Province of Ontario grant	\$ 75,000	\$ 82,500	\$ 75,000
Interest on cash and cash equivalents	1,637	1,420	5,375
Interest on loans receivable	1,782	873	1,764
Recoveries	-	1,625	1,545
	78,419	86,418	83,684
Expenses:			
Conditional contributions	103,092	85,029	112,019
Credit losses (note 4)	5,351	1,341	3,637
Administration (note 7)	10,040	7,144	6,012
	118,483	93,514	121,668
Annual Deficit	\$ (40,064)	\$ (7,096)	\$ (37,984)
Accumulated Surplus, beginning of year		296,344	334,328
Accumulated Surplus, end of year		\$ 289,248	\$ 296,344

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2021, with comparative information for 2020

(\$000s)	Budget 2021	2021	2020
Annual Deficit	\$ (40,064)	\$ (7,096)	\$ (37,984)
Net financial assets beginning of year		296,344	334,328
Net financial assets, end of year		\$ 289,248	\$ 296,344

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows

Year ended March 31, 2021 with comparative information for 2020

(\$000s)	2021	2020
Operating activities:		
Cash received from:		
Interest received on loans receivable	826	1,785
Interest received on cash and cash equivalents	2,138	6,430
Recoveries	49	260
	<u>3,013</u>	<u>8,475</u>
Cash paid for:		
Conditional contributions	(92,616)	(111,044)
Administration costs	(7,026)	(5,498)
	<u>(99,642)</u>	<u>(116,542)</u>
Cash provided by (applied to) operating transactions	<u>(96,629)</u>	<u>(108,067)</u>
Investing activities:		
Loan disbursements	(11,432)	(6,215)
Loan repayments	<u>12,436</u>	<u>11,571</u>
Cash provided by investing transactions	<u>1,004</u>	<u>5,356</u>
Net (decrease)/increase in cash and cash equivalents	(95,625)	(102,711)
Cash and cash equivalents, beginning of year	204,259	306,970
Cash and cash equivalents, end of year	<u>\$ 108,634</u>	<u>\$ 204,259</u>

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

1. Nature of the organization:

The Northern Ontario Heritage Fund Corporation (the "Corporation") was established, without share capital, on June 1, 1988 under the Northern Ontario Heritage Fund Act. The purpose of the Corporation is to promote infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, and term loans. As an Ontario Crown agency, the Corporation is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

The Corporation partners with communities, businesses and entrepreneurs across Northern Ontario to create or retain jobs and strengthen the Northern economy through the delivery of targeted programs.

In preparation for the launch of a new suite of programs, the Corporation ceased accepting new applications for all of its programs as of September 30, 2020. The Corporation made the commitment that all applications received on or before September 30, 2020 would continue to work through the eligibility and approval process.

In October 2020, the Corporation launched the Northern Ontario Recovery Program (NORP), a time-limited program to help provide financial relief and support to small businesses in Northern Ontario affected by the COVID-19 pandemic. The program offered up to \$25,000 in the form of a conditional contribution for applications deemed eligible for funding.

In February 2021, the Corporation launched four new programs focused on creating or retaining jobs and strengthening the Northern Economy: Community Enhancement, People and Talent, Invest North and Cultural Supports. Funding for these programs are offered as a conditional contribution and/or loan.

2. Significant accounting policies:

The significant accounting policies used to prepare these financial statements are summarized below.

(a) Basis of accounting:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

(b) Revenue recognition - Provincial government funding transfer:

The Province of Ontario (Province) contributes funds to provide capital for the Corporation's lending and financial assistance activities.

Transfers from the Province are recognized as revenue in the financial

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

2. Significant accounting policies (continued):

statements when the transfer is authorized and any eligibility criteria are met, except to the extent that conditions give rise to an obligation that meets the definition of a liability. Funds received from the Province are recognized as deferred revenue when these conditions give rise to a liability. Funds received from the Province are recognized in the statement of operations as the liabilities are settled.

(c) Cash and cash equivalents:

Cash and cash equivalents consist primarily of funds on deposit in chartered banks and short-term investments on deposit with the Ontario Financing Authority, a related party.

(d) Financial instruments:

The Corporation initially recognizes the measurement of cash and cash equivalents, loans receivable, accounts payable and accrued liabilities at cost and they are subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs are added to the carrying value for financial instruments measured at cost or amortized cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

(e) Revenue recognition – interest income:

Interest income is recognized when earned on the accrual basis of accounting. Interest revenue on loans receivable is recognized in an amount estimated to be recoverable. Interest income ceases to be recognized when the collectability of either the principal or interest is not reasonably assured.

(f) Loans receivable:

Loans receivable are recorded at cost less any provision for loss allowance amount. Provision for loss allowances are used to reflect collectability and risk of loss, therefore loans receivable are recognized at the lower of cost and the net recoverable value.

Changes in the valuation of provision for loss allowances are reflected in the Statement of Operations as credit loss expense. The provision for loss allowances on loans consists of provisions on specific loans and a general provision on the remaining loans and is deducted from loans receivable. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management. Subsequent to initial recognition, the provision for loss allowances may be reduced if the loan recovery is subsequently assessed as likely and is recorded as Recoveries on the Statement of Operations.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

2. Significant accounting policies (continued):

Factors used to estimate impairment include, but are not limited to:

- Collection experience
- Financial performance of the borrower
- Project success
- Economic conditions
- Repayment deferral or restructure

Based on the individual assessment of each loan, the loan is not considered impaired if the collectability of the outstanding balance is considered to be in good standing. A general provision for credit loss is applied to these balances to further reduce the credit risk exposure to the Corporation. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management.

Loan amounts written off and written down in the year and changes in provisions, are charged to credit losses in the Statement of Operations. Monies received/recovered during the year from loans provided for in a prior year are recorded as recoveries on the Statement of Operations.

(g) Conditional contributions and forgivable loans:

Conditional contributions and forgivable loans provided to recipients are recognized as an expense in the statement of operations when they are authorized, and all eligibility criteria have been met by the recipient.

(h) Use of estimates:

Preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates include the provision for credit losses and the loan discount which considers payment history, credit worthiness, and risk of the industry that the borrower operates in.

The COVID-19 pandemic continues to add to the Corporation's measurement uncertainty. Management has used the experience from the past year to help estimate the impact it will have on the Corporation.

The provision for credit losses, see Note 4, is subject to measurement uncertainty due to the credit risk associated with borrower's ability to repay their loans.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

3. Cash and cash equivalents:

(\$000s)	2021	2020
Cash	\$ 108,634	\$ 97,896
Cash equivalents	-	106,363
	\$ 108,634	\$ 204,259

The Northern Ontario Heritage Fund Act restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

During fiscal 2021, the Corporation drew down its full balance of investments managed by the Ontario Financing Authority, for the purpose of funding projects.

4. Loans receivable:

The purpose of the Corporation is to promote infrastructure improvements and economic development opportunities in Northern Ontario. Loans are provided as a means of financial assistance to various organizations to promote and stimulate economic initiatives in Northern Ontario.

Loans receivable balances consist of loans in good standing and loans in arrears net of provision for credit losses and loan discounts. Loans in arrears are loans in which repayments have not been made or have been restructured.

2021 (\$000s)			
	Loans in Good Standing	Loans in Arrears	Total
Loan Balance	\$ 42,996	\$ 10,614	\$ 53,610
Provision for credit Losses	(14,974)	(10,560)	(25,534)
Loan Discounts	(74)	-	(74)
Net Loan Balance	\$ 27,948	\$ 54	\$ 28,002

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

4. Loans receivable (continued):

2020 (\$000s)			
	Loans in Good Standing	Loans in Arrears	Total
Loan Balance	\$ 45,552	\$ 10,894	\$ 56,446
Provision for credit Losses	(16,906)	(10,660)	(27,566)
Loan Discounts	(130)	-	(130)
Net Loan Balance	\$ 28,516	\$ 234	\$ 28,750

Generally, loans bear fixed interest rates ranging from 0% to 7.5% and are fully repayable within 3 to 20 years from the date disbursed.

The evaluated measured risk helps determine the security requested. Security is determined on an individual basis. Loans approved with a value greater than \$100,000 require security.

The COVID-19 pandemic continues to create an increased collectability risk on loans in the sectors directly impacted by pandemic public health measures. An in-depth review of each loan and associated loan repayment history during the pandemic period was undertaken. Management is confident that the estimates calculated reflect the current risk exposure and have adequately provided for the loans receivable in the provision for credit loss balance.

In response to the pandemic, a six month loan repayment deferral and interest relief program was offered to all loan recipients to help offset the financial burden recipients were faced with. This resulted in a decline to the interest revenue received from loans. The deferral and relief period ended on September 30, 2020 with repayments and interest accumulation recommencing October 1, 2020.

The changes in the provision for credit losses are as follows:

(\$000s)	2021	2020
Balance, beginning of year	\$ 27,566	\$ 26,915
Loans written off in the year	(1,832)	(1,719)
Changes in provisions on active loans	1,376	3,655
Recovery of prior year provision	(1,576)	(1,285)
Balance, end of year	\$ 25,534	\$ 27,566

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

4. Loans receivable (continued):

Credit losses shown in the Statement of Operations are as follows:

(\$000s)	2021	2020
Loans written off in the year	\$ 1,832	\$ 1,719
Less: amounts provided for in previous years	(1,832)	(1,719)
Credit losses	—	—
Changes in provision on active loans	1,376	3,655
Discount adjustment	(35)	(18)
Net increase in loan loss provision	1,341	3,637
Credit losses	\$ 1,341	\$ 3,637

The change in the loan discount balances are as follows:

(\$000s)	2021	2020
Balance, beginning of year	\$ 130	\$ 190
Amount of loan discount written down	(35)	(18)
Amount amortized to interest on loans receivable	(21)	(42)
Balance, end of year	\$ 74	\$ 130

5. Due from Province:

(\$000s)	2021	2020
Balance, beginning of year	\$ 75,000	\$ —
Approved transfer payment allocation	82,500	75,000
Amounts received	—	—
Balance, end of year	\$ 157,500	\$ 75,000

The amount Due from the Province is the transfer payment amount owing to the Corporation by the Province, which is payable to the Corporation when cash balances are required.

In response to the demand on the Corporation's Northern Ontario Recovery Program, the Ministry increased the transfer payment allocation for fiscal 2021 by \$7,500,000 to help alleviate the pressure on other program funding.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities relate largely to normal business transactions with recipients, in accordance with conditional grant agreements and amounts due to the Ministry of Energy, Northern Development and Mines (ENDM) for administrative expenses. Amounts payable are due within the first quarter of the following fiscal year.

(\$000s)	2021	2020
Due to ENDM	\$ 1,278	\$ 1,160
Accrued liabilities	3,701	11,289
Total	\$ 4,979	\$ 12,449

7. Administration expenses:

Details of administration expenses in the year are as follows:

(\$000s)	Budget 2021	2021	2020
Salaries and benefits	\$ 2,510	\$ 2,457	\$ 2,254
Transportation and communications	230	24	62
Services	1,950	1,462	1,317
Management fees	3,000	3,067	2,367
Marketing	500	—	1
System Modernization	1,800	127	—
Supplies and equipment	50	7	11
	\$ 10,040	\$ 7,144	\$ 6,012

The Province provides pension benefits for all of the Corporation's permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. The costs of the pension plans, and other post-retirement non-pension benefits provided to eligible staff are paid by the Province and are not included in these financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

8. Commitments:

Funds committed but not disbursed as at March 31, 2021 as eligibility criteria has not yet been met by recipients are \$248,844,082 (2020 - \$220,984,697). This total includes \$223,648,209 in conditional contributions and \$25,195,873 in loans (2020 – \$195,421,341 conditional contributions and \$25,563,356 loans).

9. Financial instruments:

The main risks that the Corporation's financial instruments are exposed to are credit risk, liquidity risk, and market risk.

(a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Corporation is exposed to credit risk through its loans receivable. The Corporation provides credit to its loan portfolio clients in the normal course of operations. To mitigate the risk, the Corporation screens loan applicants, registers security on the loans and maintains provisions for contingent credit losses. The Corporation is also exposed to credit risk through the other receivable amount due from the Province through the Ministry of Energy, Northern Development and Mines. However, the risk is considered low as the balance owing is from the Province. The maximum credit risk is the carrying value of the loans receivable and other receivable balances. Refer to notes 4 and 5 for further details.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to liquidity risk through its accounts payable and accrued liabilities. The Corporation's exposure to liquidity risk is low as financial assets exceed the current commitments. The Corporation mitigates this risk by monitoring cash activities and expected outflows. Accounts payable and accrued liabilities are due within the first quarter of the following fiscal year. Refer to note 6 for further details.

(c) Market risk:

Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation does not conduct any transactions that are denominated in foreign currency. The Corporation's loans receivable bear fixed interest rates.

There have not been any changes from the prior year in the Corporation's exposure to liquidity risk or market risk or the policies, procedures and methods it uses to manage and measure those risks. The Corporation's exposure to credit risk has not increased further compared to the prior year as a result of the impacts of COVID-19 on its loans receivable as outlined in note 4.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

10. Related Party Transactions:

Administrative expenses, as presented in note 7, are provided by the Ministry of Energy, Northern Development and Mines and charged at cost. Included in management fees is \$1,909,577 (2020 - \$1,273,574) paid to the Ministry of Energy, Northern Development and Mines for due diligence services rendered throughout the year.

Accounts payable and accrued liabilities includes amounts due to the Ministry of Energy, Northern Development and Mines at fiscal year end for administrative expenses (see note 6).

Due from Province includes amounts due to the Corporation from the Ministry of Energy, Northern Development and Mines at fiscal year end (see note 5).

Cash equivalents are managed on behalf of the Corporation by the Ontario Financing Authority under an Investment Management Agreement (see note 3).

The Statement of Operations includes \$4,593,588 (2020 - \$8,410,080) of conditional contributions made to other entities commonly controlled by the Province of Ontario, and their related entities.