

Nawiinginokiima Forest Management Corporation

2017-2018 Annual Report



**Nawiinginokiima Forest
Management Corporation**

www.nfmcforestry.ca

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Chair's Message

As we conclude the 2018 year of operations at Nawiinginokiima, another building block has been added to our corporation, the securing of the SFL for the White River Forest brings our area of management responsibility to approximately 1.7 million hectares. The efforts of the staff members of the NFMC, MNRF, and White River Forest Products are to be recognized for making this happen; realizing that much time will be spent integrating those operations with those of the NFMC. We do envision adding the Nagagami Forest.

The NFMC's commitment to promote, encourage and assist the youth of local communities to consider a career working on the land is one program the NFMC feels will pay dividends in the near future. From field tours, school presentations, scholar ships and the hiring of students for summer employment, the program is creating solid building blocks.

The addition of the White River Forest will provide the NFMC further opportunities to foster its mandate to provide for economic opportunities for aboriginal and local communities. Discussions are happening regarding business development, skills training, and the sharing local knowledge that will assist in forest management planning. The end goal being, a well-rounded Local Forest Managed Corporation. The forest beyond the trees.

The members of the Board, Our staff, Our Contractors, The Industries are committed to providing a safe working environment for all employees. We recognize that a lot of folks use the land base for other reasons, and we encourage them to work and play safe as well.

Oh and we are growing, in many more ways, this year we planted just over 5 million trees, check us out at www.nfmcforestry.ca for considerably more information on the Nawiinginokiima Forest Management Corporation.

Respectfully,



Grant E. Goodwin
Chair of the Board, Nawiinginokiima Forest Management Corporation

1.0 Background

1.1 Company Overview

The Nawiinginokiima Forest Management Corporation (NFMC) is the first Ontario local forest management corporation (LFMC) established under the *Ontario Forest Tenure Modernization Act, 2011* (OFTMA) (<http://www.ontario.ca/laws/statute/11o10>). The NFMC was established through the passage of Regulation 111/12 under the *Ontario Forest Modernization Act, 2011 (OFTMA)* on May 29, 2012.



Figure 1. Map of NFMC Management Area

The management area is comprised of four forest management units (FMUs): Big Pic, Pic River, White River and Nagagami Forests. This area encompasses approximately 1.9 million hectares of productive Crown forest with an available harvest volume of 2.2 million m³ of merchantable fibre and 435,000 m³ of biomass fibre annually based on current Forest Management Plans (FMPs). At the start of 2017-2018 the NFMC managed the Big Pic and Pic River FMUs through Forest Resource Licenses (FRLs), during the year the sustainable forest

licenses (SFL) were issued to the NFMC. Also, in the final quarter of 2017-18 the White River SFL was transferred to the NFMC, leaving only the Nagagami Forest outstanding.

1.2 Corporate Governance

The NFMC has a Memorandum of Understanding (MOU) with the Ministry of Natural Resources and Forestry (MNRF). The MOU outlines the responsibilities of the Minister, Deputy Minister, Chair of the NFMC, the Board, and the General Manager (GM).

The GM is accountable to the Board, through the Chair, for the management of the Agency's operations and staff, while ensuring compliance with all applicable Acts, regulations and directives. The Board, in turn, is accountable to the Minister, through the Chair, for oversight and governance of the Agency, setting goals, objectives and strategic direction for the Agency, also while ensuring compliance with all applicable Acts, regulations and directives.

Board of Directors

The Board includes representatives from Manitouwadge, Marathon, White River, Pic Mobert First Nation, Hornepayne and a member-at-large who broaden its functional knowledge base and experience. There are members of the public that have applied for membership to fill currently vacant positions who are undergoing review pursuant to the public appointments process. This process can be quite time consuming but the NFMC hopes that the new members will be added to the board during 2018-19. The NFMC is always on the lookout for individuals that could contribute to the organization and serve as a board member either representing their home community or as a member at large. There were six NFMC Board members in place at March 31, 2018 and their tenures are listed below:

Member Name	Position	Community	Tenure
Grant Goodwin	Chair	Manitouwadge	30-Jun-2016 - 29-Jun-2019
Fraser Dunn	Vice-Chair	Member-at-large	30-Jun-2016 - 29-Jun-2019
David Giuliano	Member	Marathon	22-Jun-2016 - 21-Jun-

			2019
Julie Roy-Ward	Member	Hornepayne	04-Nov-2015 to 03-Nov-2018
Tina Forsyth	Member	White River	28-Jun-2017 - 27-Jun-2020
Donald Fry	Member	Pic Mobert First Nation	28-Jun-2017 - 27-Jun-2020

Table 1. Current NFMC Board Members

Collectively, the Board provides expertise in such areas as business administration, government relations, economic development, finance, forestry, Aboriginal and local issues.

1.3 Board Committees

In accordance with the OFTMA, the Board has established four standing committees:

Audit and Finance Committee

The Audit and Finance Committee is responsible for ensuring appropriate controls and accountabilities exist within the Agency with respect to audit, finance and areas of material risk.

Chair: Tina Forsyth

Members: Grant Goodwin, Julie Roy-Ward, John MacGillivray

Governance Committee

The Governance Committee provides advice and recommendations on governance matters, including board vacancies.

Chair: Grant Goodwin

Members: All Board members

Non-voting Member: Carmelo Notarbartolo

Performance Management and Human Resources Committee

The Performance Management and Human Resources Committee provides advice and recommendations on matters relating to performance management and human resources.

Chair: Fraser Dunn

Members: Donald Fry, Grant Goodwin, Julie Roy Ward

Advisory Committees

Also, in accordance with the OFTMA, the Board has established a Stakeholder Advisory Committee whose membership will consist of individuals other than members of the Board. The Stakeholder Advisory Committee is intended to provide advice and recommendations to the Board on matters related to the Agency such as community interests or opportunities and forest industry expertise.

Chair and Members: Inactive

The Stakeholders are regularly engaged by the NFMC management and have not expressed a desire to implement the Advisory Committee, stating they are pleased with current communication strategies.

1.4 Mandate

The OFTMA states the objects of an LFMC as follows:

- To hold forest resources licences and manage Crown forests in accordance with the Crown Forest Sustainability Act, 1994 (CDSA) and to promote the sustainability of Crown forests.
- To provide for economic development opportunities for Aboriginal peoples.
- To manage its affairs to become a self-sustaining business entity that optimizes value from Crown forest resources while recognizing the importance of local economic development.
- To market, sell and enable access to a predictable and competitively priced supply of Crown forest resources.
- To carry out such other objects as may be prescribed by regulation.

In previous years, the NFMC received a mandate letter from the Minister to help act as a guide for the organization, focussing its efforts. In 2017-18 the NFMC completed the key activity from previous years, namely acquiring the licenses for the Big Pic, Pic River and White River. During the year the NFMC participated in a mandate review and is awaiting the results of that exercise to see what changes may be instore for the agency in the future.

2.0 Description of Activities

A major milestone was achieved in 2017-18 when the SFL's for the Big Pic and Pic River units were issued to the NFMC. FRLs for the Big Pic and Pic River Forests were issued to the NFMC by the MNRF effective April 1, 2013 and were replaced by the SFL's issued to NFMC during the year. Forestry activities on these Forests are carried out under the authority of an approved FMP. These activities are subject to an Independent Forest Audit (IFA) every five years and the audit results are tabled in the Ontario legislature and made available to the public.

The management of the NFMC entered into an agreement with White River Forest Products for the transfer of the White River SFL to take place in 2017-2018. The actual transfer of the licence was approved by the MNRF on Jan 2 2019 and the subsequent transfer of funds held in trust and related to the White River SFL took place in the first quarter of 2018/19.

The NFMC's current management recognized the need for trust and transparency when dealing with communities and its forest industry partners such as making presentations to municipal councils and local citizen committees, holding regular operations meetings with contractors and mills to develop harvest plans and consulted the forest industry in developing the budget for the upcoming year.

During the 2017-2018 fiscal year, 516,000 m³ of wood were delivered from the Big Pic and Pic River Forests to receiving mills. This is a small increase compared to 507,000 m³ of wood in 2016-2017 but it is below the recent high of 567,000 in 2015-2016. The 2017-18 deliveries can be attributed to less volume being made available to non-commitment holders as the NFMC prepares for the Contingency Plans on the Big Pic and Pic River. The primary customers were AV Terrace Bay Inc., Lecours Lumber Co., Levesque Plywood Limited, White River Forest Products and Longlac Lumber Inc. The majority of volume was delivered by three primary contractors on the management area, B&M Hauling Ltd., AMIK Logging Limited Partnership/Lecours Lumber, and AV Terrace Bay Inc. The NFMC assumed control of the White River in the final quarter of the year when the license was transferred in January 2018. The MNRF retained the responsibility for invoicing and collecting the various crown charges until February 2018. During the period of NFMC management the White River Forest supplied local mills with almost 173,000 m³ of wood, with the majority going to White River Forest Products and AV Terrace Bay.

NFMC oversees forest planning and reporting, road construction and maintenance, compliance monitoring, Silviculture, harvesting all as part of responsibilities associated with the SFL. For example, the NFMC's renewal program planted over 5 million trees and renewed over 6,000 ha of forest to the standards of the CFS. The NFMC also oversaw the maintenance or construction of over 728 KM of roads on the Pic River Forest and over 990 KM of roads on the Big Pic Forest. In addition to the maintenance of the Industrial Road.

2.1 Staffing, Office Establishment and Health and Safety

The NFMC is a fully functioning Crown Agency with its own staff and primary office in Marathon. The contact information and mailing address for the NFMC is:

Nawiinginokima Forest Management Corporation
P.O. Box 1479
22 Peninsula Road
Marathon, ON P0T 2E0
Phone: 807-229-8118
Website: www.nfmcforestry.ca
General inquiries: contact@nfmcforestry.ca

General Manager

The GM, reporting to the Board of Directors, is responsible for the day-to-day management of the NFMC. The GM is also responsible for developing and implementing the operational plan for the Agency and has the flexibility to determine whether delivery of the operational plan is completed by in-house staff or through service providers based on its individual business conditions.

The NFMC has established its own human resource and procurement policies and is directly responsible for the terms and conditions of employment and health and safety in accordance with its human resource policies and applicable provincial and federal legislation and subject to approval by the Board. The NFMC is subject to all applicable Government of Ontario directives.

Staff Numbers

The NFMC maintained its staffing level during the year at nine full time employees. The NFMC may require additional staff to support the activities of forest management, marketing and selling of wood, and forest compliance, tasks

now performed by contractors, following the issuance or transfer of all SFLs. The NFMC will determine the appropriate mix of permanent and contract staff to meet varying forest management planning and operational demands at different times in the forest management planning cycle. This flexibility will also be an important tool for the GM to manage costs and operational risks associated with the current business climate in the NFMC management area.

Organizational Chart

Additional staff may be added in 2018-2019 as the NFMC continues to grow and is in the process of determining its employment needs going forward. The management team continues to strive to make the NFMC a desirable place to work.

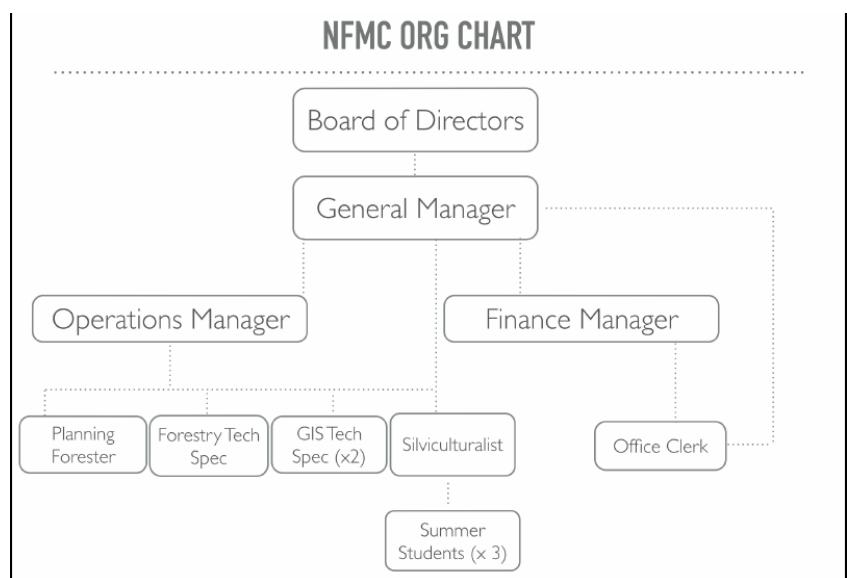


Figure 2. NFMC organizational chart

Health and Safety Program

The management of the NFMC is committed to the health and safety of its employees and all who are involved in forestry and silviculture operations on its

management area. The NFMC provides First Aid training for its staff and ensures that its operations staff are current. The NFMC is also committed to having an accident-free workplace through effective administration, education and training. To honor these commitments and to comply with provincial legislation and the Occupational Health and Safety Act (2018), the NFMC's comprehensive Health & Safety Program (H&SP) was audited and endorsed by Workplace Safety North. The NFMC considers its H&SP an evergreen document and as a result it continues to update its H&SP as required to ensure continued employee and contractor safety on its management area. To further cement its H&SP and promote safe work practices in forestry, the NFMC has established a partnership with Workplace Safety North to provide complimentary health and safety training courses to the various stakeholders on its management area. The NFMC provides financial support to its contractors that require health and safety training for its employees.

2.2 Forest Management and Operations

During 2017-2018, the NFMC continued to establish appropriate mechanisms and structures to ensure ongoing activities associated with forest management planning, forest renewal and forest operations including harvesting and road construction and maintenance.

The Planning Forester oversees the preparation of the Forest Management Plans (FMP) plus all the other requirements of the various manuals such as annual work schedule, annual report and compliance report preparation. The Forestry Tech is responsible for the oversight of harvesting and road construction activities on the Agency's land base. The Silviculturalist plans and oversees the renewal activities on the forests. The Silviculturalist ensures that the NFMC land base meets the forest renewal and sustainability requirements set out by the MNRF as well as third party certification programs (i.e. FSC). These staff report to the Operations Manager and are supported by NFMC GIS and administration staff in managing the Big Pic and Pic River SFL's. For the White River SFL, in 2017-18, these tasks were carried out by an independent contractor under the supervision of White River Forest Products. The NFMC will evaluate this model in 2018-19 and determine what changes will be required to fit the White River SFL under the NFMC's umbrella.

2.3 Forest Certification and Environmental Policy

Forest Certification

The NFMC maintained its Forest Stewardship Council (FSC®) forest management certification on the Pic River Forest and the Big Pic Forest. Certification of the forests under its management is considered a major accomplishment that demonstrates the NMFC's commitment to manage its forests sustainably, support its industry partners, and help facilitate local community and First Nation economic development. The White River Forest was certified by its previous management and NFMC intends to maintain that certification.

The GM and board ensure the NFMC's staff, contractors and customers know the Agency's commitment to certification. The NFMC staff works hard to ensure the annual FSC surveillance audits are a success. This includes work by operations staff to safeguard the Agency's renewal and harvesting activities comply with its commitments as well as planning and support staff that gather and maintain the volumes of information reviewed by the audit team.

Environmental Policy

The NFMC recognizes environmental protection as one of our guiding principles and a key component of sound business performance. The Board of Directors developed an Environmental Policy in June 2013. As part of the Environmental Policy for the NFMC, an ongoing commitment was made to providing quality forest products and related services in a manner that ensures a safe and healthy workplace for employees and minimizes the potential impact on the environment. In addition, the NFMC will continue to operate in compliance with all relevant federal, provincial and municipal environmental legislation and strives to use pollution prevention and environmental best practices.

The Environmental Policy states that the NFMC will:

- integrate the consideration of environmental concerns and impacts into all our decision making and activities,
- promote environmental awareness among our employees and encourage them to work in an environmentally responsible manner,
- train, educate and inform our employees about environmental issues,
- where required by legislation or where significant health, safety or environmental hazards exist, develop and maintain appropriate emergency and spill response plans,

- regularly communicate our environmental program to our clients, customers and the public and encourage them to support it,
- commit to the advancement of sustainable forest management practices and to the pursuit of FSC® certification on the NMFC management area, and
- strive to continually improve our environmental performance by periodically reviewing our environmental policy considering our current and planned future activities.

The NFMC supported training initiatives designed to improve Health & Safety or Environmental performance for several stakeholders during the year, including the following:

TRAINING COURSE	STAKEHOLDER
Competent Supervisor	AVTB, Longlac Lumber
First-Aid	B&M, Goliboski, D&G, MKWA
Forestry Common Core	B&M, TNT, MKWA, Goliboski
Grader Training	MKWA
Lockout Training	B&M
Planned Workplace Inspections	B&M, MKWA
SP 102	B&M, MKWA, WRF subcontractors
WHIMS	B&M
Working at Heights	B&M

Table 2. List of training courses provided by NFMC to stakeholders

2.4 Forest Product Markets

The recovery in lumber and pulp prices served to spur softwood demand in the region. In 2017-2018, the NFMC management area supplied over 516,000 m³ of wood to its six main customers. The strong commodity prices and demand are expected to continue through 2018-2019. The high prices also presented the NFMC with an opportunity to send volumes to mills outside the region to test the market. This experience may prove useful once NFMC begins open market

sales following approval of the new FMP in 2019. The NFMC is moving forward on strategic initiatives to increase contractor capacity, specifically through arrangements that support local and First Nation economic development.

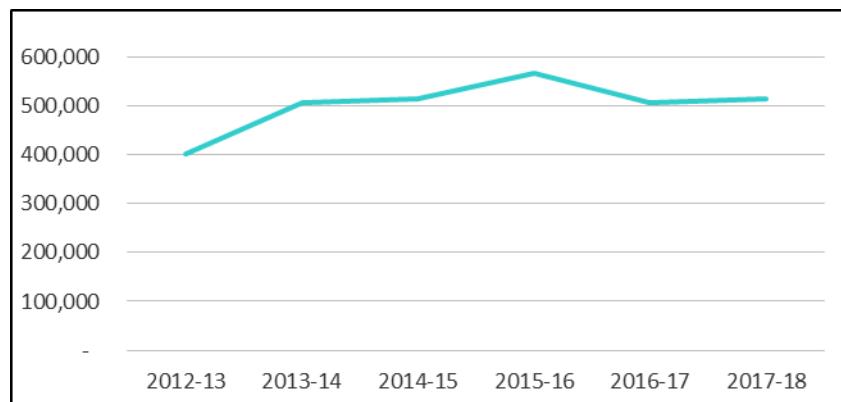


Figure 3. Delivered Volume (Big Pic & Pic River) 2012-2013 to 2017-2018

The White River SFL was added near the end of 2017-18. During the final quarter of the year the delivered volume from that forest was almost 173,000 m³. This volume was not included in the graph above to make comparisons between years more consistent and relevant.

2.5 Community Engagement

During the 2017-2018 fiscal year, the NFMC has been working hard to establish a strong foundation to allow it to move forward with its objects and mandate to support local and aboriginal economic development. Now that NFMC has three of the SFL's under its management and established the operating reserve it will be able to act on the community engagement component of its mandate. The GM and Board has made efforts to meet with community leaders and their councils to provide updates on the NFMC and its operations. These meetings and updates took place during the year and include formal activities such as presentations to municipal and band councils as well as informal activities such as meetings and phone calls.

NFMC has supported initiatives that would benefit the Big Pic and Pic River Forests over the years. With the transfer of the White River SFL, the NFMC now in a position to provide the long-promised assistance to Pic Mobern FN to increase their forestry capacity. The NFMC has also taken a positive approach in the development of its Procurement Policy with provisions for local and Aboriginal based businesses.

During the coming year, the NFMC will continue to engage with First Nations, communities and other key stakeholders to develop meaningful strategies and programs to achieve the objects of the Agency's mandate.

3.0 Analysis of Performance

3.1 Performance Measures

The NMFC will continue to develop operational performance measures and targets to ensure the achievement of its goals and objectives as well as achievement of the objectives for the Agency (as described in the OFTMA). The NFMC's performance measures and achievements are outlined below.

1. World class forest management company
 - Maintained third party FSC Certification on the Big Pic Forest and the Pic River Forest.
 - Implementing plan to address historic silviculture obligation.
 - Began work on the amalgamated FMP for the Big Pic and Pic River Forests.
2. Becoming financially self-sufficient
 - Cash on hand at Mar 31/2018 of \$3.6 million.
 - Funds held by FFT in trust for NFMC over \$6 million.
 - SFL's for Big Pic, Pic River and White River now under NFMC control allowing the Agency to generate its own funds.
 - NFMC established its operating reserve at \$2.8 million at March 31, 2018.
 - Accounts receivable and accruals at March 31, 2018 approximately 80% less than 90 days old.

3. Extending scope of usage

- Commitment volumes made available but not fully utilized due to operational factors and conditions facing certain customers.
- Volumes from Big Pic and Pic River exceeded budgeted amounts in 2017-18 (516,000 m³ versus 494,000 m³).
- Supported wood requirements of new/re-opened mills in and around the NFMC management area.
- Some volume was made available on the open market (less than 1%) during the year but this supply will be limited until the new FMP is implemented in 2019. Fibre sent to mills as far as Kenora.
- White River SFL added in 2017-18 and almost 173,000 m³ delivered under NFMC management.
- Forest road program (maintenance and construction) of 728 KM on the Pic River Forest and over 990 KM on the Big Pic Forest.

4. Meeting governance requirements

- Timely submission of Annual Report, SFL Business Plan, and Agency Business Plan to MNRF.
- Posted reports to website; including travel, meal and hospitality expenses to website for public disclosure.
- Established the NFMC Governance Committee and Human Resources Committee.
- The NFMC unforeseen events, and harvest contractor policy was approved in 2017-18.

5. Building new local forest related industry

- Made first payment to Pic Mobert as part of plan to increase the Band's forestry capacity and increase volume available to local mills.
- Continued to develop policies for implementation in 2018-2019, including open market wood sales.
- Volume from the NFMC landbase was delivered to mills in Thunder Bay and in Kenora.

6. Establishing a new baseline for First Nation engagement

- Meeting the Operating Reserve requirements means that going forward NFMC can engage in strategic initiatives.
- Board approved NFMC strategic initiative policy to support other possible strategic initiatives for 2017-2018 and beyond.
- Moved forward on strategic initiatives related to road maintenance and harvesting capacity with a local First Nation.
- Recruiting First Nations' members to serve on Board of Directors including to fill currently vacant positions.

- NFMC travelled to area First Nations to review planned operations and have dialogue with chiefs, councils and band members, including trips to Longlac, Pic River, Pic Mobert.
- FMP public consultations and open houses were held during the year, NFMC reached out to all adjacent communities.

7. Engaging the community in forestry

- Board included representatives of Pic Mobert and Pic River First Nations during the year (the Pic River position was vacant at year end and is in the process of being filled).
- Staff attended eight community events and tradeshows across the region including Marathon, Terrace Bay, Longlac, Thunder Bay.
- Recruiting community members to fill other vacant positions to increase representation of northern communities.
- Implemented the NFMC scholarship program. The program is open to students from NFMC communities studying relevant fields.
- Articles related to NFMC appeared six times in the Marathon Mercury, Wawa News, Working Forest, and Northern Ontario Business.
- Planned an Open House/Grand Opening to celebrate the issuance of the licenses to NFMC.

3.2 Operational Performance

During the 2017-2018 fiscal year, the volume harvested on the management area was approximately 516,000 m³ which exceeded the budget of 494,000 m³ by 22,000 m³. In addition, 173,000 m³ were delivered from the White River Forest after the NFMC assumed management responsibility.

The majority of the volume is softwood, which accounted for over 90 percent of the deliveries. The NFMC was able to exceed its biomass delivery targets but the market for merchantable hardwood is still a challenge. The NFMC sells or enables the following mills to buy or access fiber from the White River, Big Pic and Pic River Forests.

Mill	Location	Product
AV Terrace Bay	Terrace Bay	Pulp/Biomass
Capital Power Corporation	Calstock	Biomass
Lecours Lumber Co. Ltd	Hearst	SPF Lumber
Levesque Plywood Ltd	Hearst	Poplar Veneer
Longlac Lumber Inc	Longlac	SPF Lumber

Hornepayne Lumber LP	Hornepayne	SPF Lumber
White River Forest Products	White River	SPF Lumber

Table 3. List of NFMC primary customers (locations and products)

The primary customers for the NFMC were AV Terrace Bay and White River Forest Products which together accounted for approximately 80 percent of delivered volume.

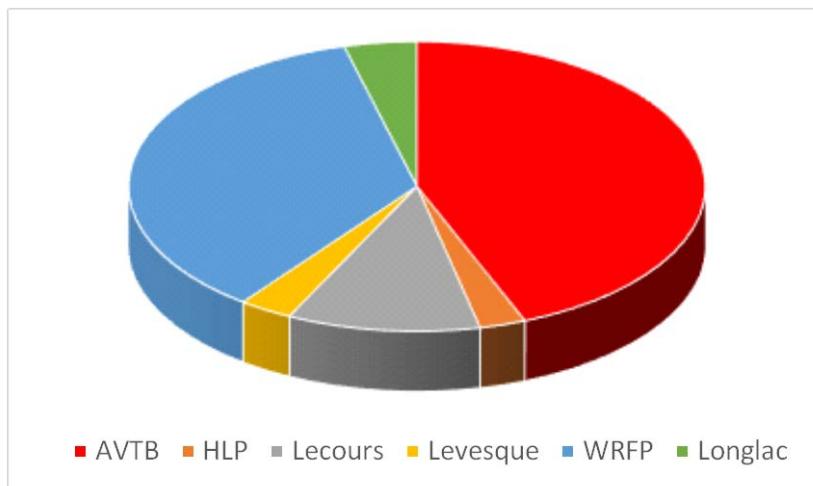


Figure 4. Big Pic & Pic River volume distribution by destination 2017-2018

The volume delivered from NFMC was primarily from the Big Pic Forest, however, the NFMC continued to increase access to fibre on the Pic River Forest which totaled 115,000 m³ in 2017-18. NFMC's work with mills and local First Nations should result in full utilization of the Pic River forest in coming years. The NFMC only managed the White River for a portion of the 4th quarter and during that time almost 65% of the volume was sent to White River Forest Products, with smaller amounts going to Av Terrace Bay, Hornepayne and Levesque.

In addition to the maintenance or construction of over 728 KM of roads on the Pic River Forest and over 990 KM of roads on the Big Pic Forest. The NFMC has continued responsibility for the maintenance of almost 100 km of the Caramat-Manitouwadge Industrial Road for the Ministry of Transport Ontario (MTO). The NFMC utilizes a local First Nation contractor to perform road maintenance and

provide an economic opportunity to the First Nation's community. The NFMC added a section to its website that allows the public to view the travel condition of the Industrial Road, it also allows them to identify areas that may need maintenance.

Forest management activities were carried out with support from qualified service providers to facilitate ongoing forest operations including any required amendments to the Forest Management Plans and revisions to Annual Work Schedules. The NFMC continues to manage the renewal program with the objective of achieving improved results and cost control through the timely treatment of harvest blocks, Free to Grow surveys, etc. As a result, the Forest Renewal Trust (FRT) account now exceeds minimum balance for the Big Pic and Pic River SFLs.

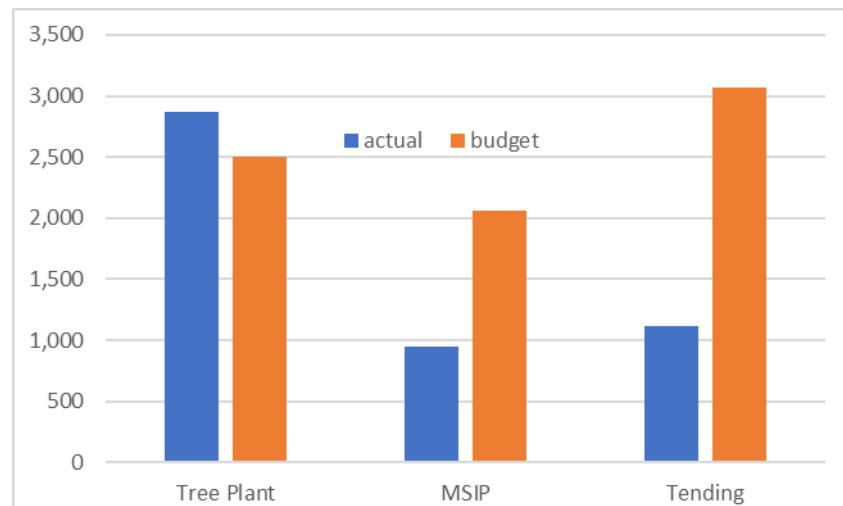


Figure 5. Compare Actual Silvicultural Area Treated (ha) versus Budget for 2017-2018

The program included the following activities on the Big Pic and Pic River SFL's in 2017-2018:

Mechanical Site Prep	949 ha
Aerial Tending	1,115 ha
Stock Production	4,350,000 trees
Planting	5,014,221 trees

The silvicultural activities on the White River Forest were completed by the time the SFL was transferred to the NFMC. The NFMC will be responsible for the program in 2018-19 and worked with Jackfish Forest Management to ensure it was consistent with its vision for the future forest condition. As a condition of the transfer the White River Forest met the minimum balance requirements at March 31, 2018.

3.3 Financial Performance

The Agency appointed an independent auditor to review the accounts and financial transactions of the Agency for 2017-2018 (see Section 5.0). The NFMC is a Crown Agency and operates on a cost recovery basis and is exempt from income taxes under the federal Income Tax Act.

The NFMC generated revenue through the sale of timber to local mills that was directed to a trust fund administered by Forest Futures Trust (FFT) until the sustainable forest licenses were received by the NFMC. The NFMC received \$3.3 million from the funds for the Big Pic and Pic River held by the FFT in 2017-18 upon the issuance of the SFLs. The NFMC received \$4.2 million upon the transfer of the White River Forest that was deposited into NFMC's accounts in April 2018 following approval of the FFT application and funding agreement.

The NFMC recorded net income of \$8.67 million in 2017-18 compared to an operating deficit for 2016-2017 of \$164,312 and 2015-16 of \$632,373. The difference is primarily due to the White River, Big Pic and Pic River account balances recognized in 2017-2018 from the LFMC conversion fund following the issuance of the licenses. In contrast, the operating deficits in prior years are the result of funds that should be going to the NFMC instead ending up in the FFT account. The FFT trust account balance from all four SFLs had reached nearly \$10 million by the end of 2017. The funds for the Nagagami Forest are still being held by the FFT and will be recognized in the year the money is received following the transfer of the license and approval of the FFT LFMC Conversion funding application and Funding Agreement.

Balance Sheet

The NFMC maintained its cash position at over \$3.2 million during the 2017-18 audit period. The balance of accounts receivable at the end of the audit period was \$9 million (\$8 million current and \$1 million long term). The FFT payment related to the license transfer represented over \$5 million of the accounts receivable and the balance is comprised of funding from the MNRF's Roads Program fund, stumpage fees, MTO Northwest Region, Forest Renewal Trust Fund and trade receivables. Trade receivables include management fees, residual stumpage, former LFMC conversion fees and permit fees receivable from various mill customers and overlapping licensees. The accounts receivable increased in 2017-18 due to changes in NFMC operations that made it responsible for invoicing and collecting funds that previously were paid to the MNRF or into the Forestry Futures Trust. The NFMC also added deliveries from the White River Forest to its accrual for deliveries in 2017-18 but not invoiced by the province until the next year. Happily, the NFMC also had to accrue for residual stumpage, meaning the price of lumber exceeded the market minimum which is good news for the NFMC and the area sawmills. In addition, the MNRF implemented a new invoicing system near the end of the year that delayed billings by a month and that carried over in the year end balances.

The NFMC acquired additional computer and software valued at \$3,000 during the audit period. No improvements or modifications were made to the building that the NFMC leases from the town of Marathon for office space. Equipment and other assets are recorded at cost less accumulated amortization.

Liabilities at year end were almost \$2.5 million and are primarily related to the accrued Crown dues including deliveries in January-March 2018 but not billed until after the year end, and Provincial Forest Access Roads funds receivable by NFMC and repayable to the industry as part of the flow through agreement.

Revenues

Revenues from administrative fees and forest renewal charges are recognized when wood is delivered. Revenues from the MNRF's Provincial Forest Access Roads Program were recognized when the invoice was submitted for reimbursement.

The total revenue for the period totalled \$13 million. Operating revenues from administration and similar fees for the audit period were \$755,000. For the first time since it was established, the NFMC began collecting the former stumpage charges following the issuance of the SFLs in 2017-2018. Also, in 2017-2018 the

NFMC collected residual stumpage charges as the price of lumber exceeded the benchmark level, again for the first time since the NFMC was established in 2012. The former LFMC conversion funds and residual charges are referred to collectively as Timber Sales Charges reached almost \$1.5 million.

Roads funding for the audit period was \$3 million which includes funds received from the provincial forest access roads program and the agreement with the MTO to maintain the Industrial Road.

The NFMC received LFMC conversion funding during the 2017-2018 fiscal year of more than \$7.5 million. In July 2017, the NFMC received funds in the trust account for the Big Pic and Pic River SFL's which was transferred to the operating reserve. Additional LFMC conversion funds, including the balances in the Big Pic and Pic River SFL and funds for the White River, were received in Q1 of 2018-19.

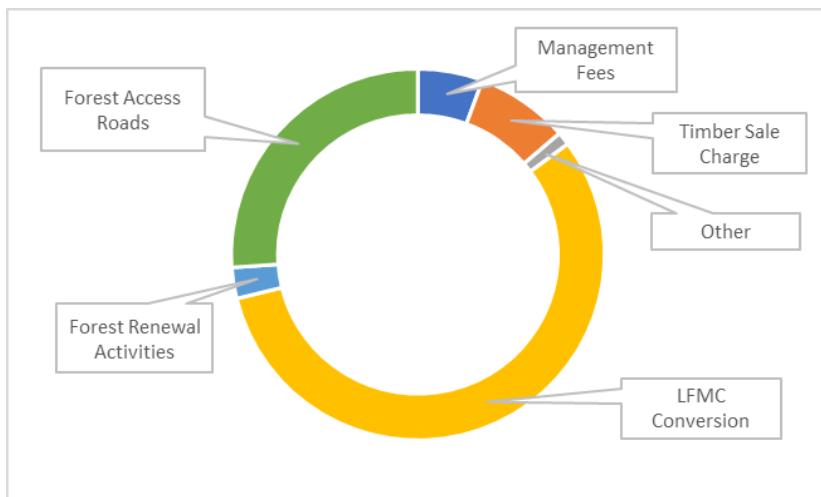


Figure 6. Revenue by Source 2017-2018

Expenditures

Wages and benefit costs incurred during the audit period totalled \$837,000 an increase from 2016-17 due to the addition of full time technical and operating staff. The Board of Director remuneration and meeting expenses totalled \$30,000, a reduction from the previous year as the number of board members decreased and many of the members utilized teleconference services to connect

to the meetings held at the NFMC office in Marathon. The NFMC also incurred contractor services expenses to support management activities of \$249,000 such as FMP preparation and operations supervision.

The largest expenditure during the period was road construction and maintenance costs totalling over \$3 million, most which were recovered during the year from the MNRF Roads Program or the MTO Industrial Road agreement.

The NFMC incurred professional fees of \$30,000 for the preparation of audited financial statements and legal and accounting advice to support various agreements and corporate decisions. As a Crown Agency the NFMC is subject to numerous rules and regulations not applicable to other SFL types and as a result what may otherwise be routine management decisions are subject to thorough review by its lawyers and auditors. The NFMC incurred office related expenses of \$71,000, including rent. Additional expenditures included costs of \$38,000 to maintain the forest certification for the Pic River and Big Pic units. The largest difference from the previous year was the decrease in roads spending during the year as the NFMC worked with its contractors to improve the efficiency of the Industrial Road maintenance program and the amount of surplus funding under the MNRF roads program decreased.

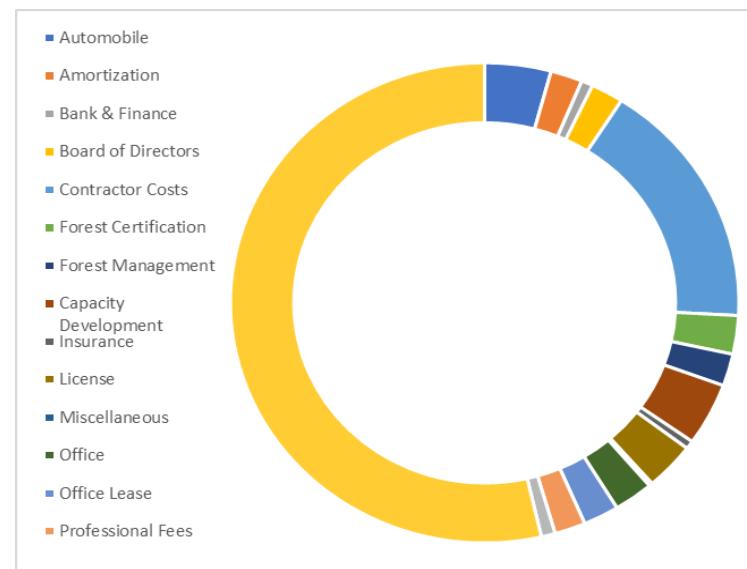


Figure 7. Distribution of Expenses by Type for 2017-2018

Per its mandate, the NFMC invested over \$20,000 in training and capacity development to provide for opportunities and greater role for local and Aboriginal communities in the management of Crown forests. The funds were used primarily used to train employees at a First Nations based contractor that started operations on the management area during the year. An additional \$42,000 was spent on training NFMC employees and contractors during the year. The NFMC also paid over \$40,000 for its membership in FPInnovations which provided training opportunities to the Agency's customers (mills) plus its harvesting and hauling contractors.

4.0 The Path Ahead

The primary achievement for 2017-2018 was to have the Big Pic and Pic River SFLs issued and finalizing the agreement with the MNRF to have the White River transferred. NFMC is now in a position to start implementing the core of its mandate. The NFMC will continue to build on its momentum and the strength of the forest products sector to look for new opportunities to build on its mandate.

As the NFMC assumes additional responsibilities following the securing of the SFLs the process to hire new staff will continue. The management of the NFMC believes its staff are the Agency's greatest asset. The NFMC recognizes the difficulties of attracting staff to Marathon and other small communities in the NFMC management area given the changing nature of work and the expectations of the so-called millennial generation. The NFMC will work to create an environment that encourages each staff member to achieve their full potential by encouraging professional development and growth.

The NFMC has successfully established its operating reserve and will now look at launching some strategic initiatives, especially those supported by local communities. One of the NFMC's priority areas for 2018-2019 will be the continued development of economic opportunities for the communities and First Nations in the NFMC management area. This will be accomplished through open and honest dialogue and business development collaboration and the development of the NFMC's Strategic Initiative Policy.

The biggest challenge facing NFMC's operations staff in 2018-2019 will be the completion of the Pic Forest FMP. In 2017-2018, the NFMC began the process of preparing the amalgamated FMP for the Big Pic and Pic River Forests. Contingency plans were prepared to cover 2017-2019 and align the two schedules. The amalgamated FMP will not be completed until the second quarter of 2019-20 so the NFMC is preparing a contingency plan for 2019-20 to ensure operations continue on the forests. The contingency plan does not affect the target date for amalgamating the forests, and the Pic Forest is still planned for April 2019.

The increased demand has put pressure on the NFMC and it will work with harvesting contractors and receiving mills to ensure wood is delivered on time and at competitive prices, as well as working to maximize the value of the forest resource. NFMC will work to encourage new entrants and support initiatives that make sense for the communities, mills and forest sustainability. The NFMC is focussed on reducing the administration fees charged to mills as well as its renewal rate. The NFMC will work with its contractors to develop cost effective silviculture treatments that enhance forest health and productivity.

The NFMC sent wood to destinations in Thunder Bay and Kenora this year and will look to broaden the market for its products by working with new entrants. The NFMC is encouraged by the restart of previously idled sawmills and the and believes that there are opportunities for future growth in the forest products sector. NFMC's ability to broaden its customer base and support new users will be limited in 2018-19. The NFMC is in the final year of its contingency plan that was designed to bridge operations to allow the amalgamation of the Big Pic and Pic River and as a result the available harvest area is more constrained with fewer options for contractors. The White River Forest is starting a new plan and is expected to see an increase in harvest this year. The softwood volume from the White River is expected to be fully utilized by local mills, while the NFMC will be looking for opportunities to market the hardwood.

5.0 Audited Financial Statements

**Nawiinginokiima Forest
Management Corporation
Financial Statements
For the year ended March 31, 2018**

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Independent Auditor's Report

To the Board of Directors of Nawiinginokiima Forest Management Corporation

We have audited the accompanying financial statements of Nawiinginokiima Forest Management Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 for not-for-profit organizations, 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.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nawiinginokiima Forest Management Corporation as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
June 24, 2019

Nawiinginokiima Forest Management Corporation Statement of Financial Position

March 31	2018	2017
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Assets

Current

Cash	\$ 3,235,155	\$ 1,604,617
Accounts receivable (Note 3)	<u>7,882,246</u>	<u>2,243,859</u>
	11,117,401	3,848,476
Long term receivables (Note 3)	1,073,532	-
Roadside inventory (Note 4)	900,000	900,000
Property, plant and equipment (Note 5)	<u>30,638</u>	<u>59,040</u>
	\$ 13,121,571	\$ 4,807,516

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities (Note 6)	\$ 2,454,717	\$ 2,806,152
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Net assets

Unrestricted	7,866,854	1,701,364
Operating reserve (Note 7)	<u>2,800,000</u>	<u>300,000</u>
	10,666,854	2,001,364
	\$ 13,121,571	\$ 4,807,516

On behalf of the Board:

Director

Director

Nawiinginokiima Forest Management Corporation Statement of Operations and Accumulated Net Assets

For the year ended March 31	2018	2017
Revenue		
Management fees	\$ 755,551	\$ 521,663
Forestry Futures Trust	7,562,596	545,983
Forest renewal activity	362,975	435,881
Forest access roads	3,012,298	3,342,448
Timber sales charges	<u>1,549,472</u>	-
	<u>13,242,892</u>	4,845,975
Expenses		
Amortization	30,021	37,822
Automotive	18,364	52,198
Bank charges	10,879	10,690
Bad debt (recovery)	-	(8,307)
Board of Directors activities	30,592	32,435
Community/First Nation training and development	20,296	18,841
Contract services	248,857	234,855
Forest certification	38,449	43,717
Forestry equipment & supplies	32,048	34,165
Forest management services	74,610	148,699
Human resources development	42,006	45,816
Insurance	8,137	33,850
Licenses and subscriptions	47,467	40,847
Miscellaneous	3,283	8,825
Office	70,769	70,364
Professional fees	29,155	57,302
Public access road maintenance	3,021,929	3,444,273
Public relations	13,156	22,642
Wages and benefits	<u>837,384</u>	681,254
	<u>4,577,402</u>	5,010,288
Excess (deficiency) of revenue over expenses for the year	8,665,490	(164,313)
Net assets - unrestricted, beginning of the year	1,701,364	1,865,677
Transfer to operating reserve (Note 7)	(2,500,000)	-
Net assets - unrestricted, end of the year	\$ 7,866,854	\$ 1,701,364
Net assets - internally restricted, beginning of the year	\$ 300,000	\$ 300,000
Transfer from operating reserve (Note 7)	2,500,000	-
Net assets - internally restricted, end of the year	\$ 2,800,000	\$ 300,000

Nawiinginokiima Forest Management Corporation Statement of Cash Flows

For the year ended March 31	2018	2017
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	\$ 8,665,490	\$ (164,313)
Item not involving cash:		
Amortization	30,021	37,822
	<hr/>	<hr/>
	8,695,511	(126,491)
Change in non-cash working capital items:		
Accounts receivable	(5,638,387)	(100,154)
Prepaid expenses	-	4,100
Accounts payable and accrued liabilities	(351,435)	352,026
	<hr/>	<hr/>
	2,705,689	129,481
Cash used in investing activities		
Long term receivable advances	(1,073,532)	-
Cash used in capital activities		
Purchase of property, plant and equipment	(1,619)	(12,375)
Increase in cash during the year	<hr/>	<hr/>
Cash, beginning of year	1,630,538	117,106
	1,604,617	1,487,511
Cash, end of year	<hr/>	<hr/>
	\$ 3,235,155	\$ 1,604,617

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

1. Significant Accounting Policies

Basis of Accounting	These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations.								
Financial instruments	<p>The Corporation's financial assets and financial liabilities are accounted for as follows:</p> <p>Cash is measured at fair value. Accounts receivable are recorded at amortized cost less any valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and net recoverable value, when collectability and risk of loss exists. Changes in valuation allowances are recognized in the statement of operations.</p> <p>Roadside inventory is recorded at cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired.</p> <p>Accounts payable and accrued liabilities are recorded at cost.</p>								
Property, Plant and Equipment	<p>Property, plant and equipment are recorded at cost less accumulated amortization.</p> <p>Road costs are expensed when incurred.</p> <p>Cost includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development that are directly attributable to the acquisition or construction of the asset.</p> <p>Amortization is provided for on a straight-line basis as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Computer equipment</td> <td style="width: 40%; text-align: right;">- 3 years</td> </tr> <tr> <td>Furniture and fixtures</td> <td style="text-align: right;">- 5 years</td> </tr> <tr> <td>Leasehold Improvements</td> <td style="text-align: right;">- 10 years</td> </tr> <tr> <td>Computer software</td> <td style="text-align: right;">- 3 years</td> </tr> </table>	Computer equipment	- 3 years	Furniture and fixtures	- 5 years	Leasehold Improvements	- 10 years	Computer software	- 3 years
Computer equipment	- 3 years								
Furniture and fixtures	- 5 years								
Leasehold Improvements	- 10 years								
Computer software	- 3 years								

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

1. Significant Accounting Policies (cont'd)

Revenue Recognition Revenue from management fees and timber sales charges are recognized when the wood is delivered, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed and determinable.

Revenue from forest renewable activity and forest access roads is recognized when earned and collection is reasonably assured.

The Corporation accounts for Forestry Futures Trust Funding when an agreement is signed by the Corporation, MNR and the Forestry Futures Trust Committee.

Use of Estimates The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. The principal estimates used in the preparation of these financial statements are the useful lives of property, plant and equipment, allowance for doubtful accounts and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

Contributed Materials and Services Contributed materials and services which are used in the normal course of the Corporation's operations and would otherwise have been purchased are recorded at their fair value at the date of contribution if fair value can be reasonably estimated.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

2. Nature of Business

The Nawiinginokiima Forest Management Corporation (NFMC) is a Crown Agency which was established by the Ontario Government on May 29, 2012 under the Ontario Modernization Act of 2011. Operations commenced in February 2013. NFMC was established to operate within the defined management area that includes the communities of the Ojibways of the Pic River First Nation, Pic Robert First Nation, Hornpayne Aboriginal community, Marathon, Hornpayne, Manitouwadge and White River. NFMC operates on a not-for-profit basis and is exempt from income taxes under the Income Tax Act.

The mandate for Nawiinginokiima Forest Management Corporation is as follows:

- Manage Crown forests sustainability in accordance with the *Crown Forest Sustainability Act, 1994* including the development and implementation of Forest Management Plans.
- Market and sell available Crown timber.
- Provide economic benefits to communities.
- Provide for opportunities and greater role for local and Aboriginal communities in the management of Crown forests.
- Promote and attract forest sector investment in the local management area.
- Operate as a self financing business, which includes establishing an operating reserve which will ensure continued sustainable forest management in response to variations in economic cycles.
- Reinvest in the forest to improve the Crown forest asset.
- Advise the Minister of Natural Resources on matters related to the forest industry and forest sector.
- Collect, maintain and provide Crown timber sales and pricing information.

3. Accounts Receivables

	2018	2017
Roads program	\$ 131,307	\$ 1,059,794
Stumpage fees	1,327,957	717,303
Trade	2,521,491	521,163
Forestry Futures Trust - LFMC	<u>5,029,424</u>	-
	9,010,179	2,298,260
Less: long term portion	(1,073,532)	-
Less: allowance for doubtful accounts	<u>(54,401)</u>	<u>(54,401)</u>
	<u><u>\$ 7,882,246</u></u>	<u><u>\$ 2,243,859</u></u>

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

4. Roadside Inventory

The Corporation has committed to provide advances to a contractor, B&M Hauling Ltd., to a maximum amount of \$900,000 for roadside inventory. As at March 31, 2018 the maximum committed advance amount has been provided. The advance is secured by wood processed at roadside or delivered to mills and a general security agreement covering all assets of B&M Hauling Ltd.

Subsequent to the year end, in March of 2019, the Corporation entered into a service agreement with B&M Hauling Ltd., whereby B&M Hauling Ltd. will provide certain services to the Corporation, and a percentage of the service fee will be applied against the roadside inventory advance until the amount is paid in full.

5. Property, Plant and Equipment

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 67,167	\$ 53,734	\$ 67,167	\$ 40,300
Leasehold improvements	20,000	8,000	20,000	6,000
Computer software	49,215	45,090	49,215	39,615
Computer equipment	41,207	40,127	39,588	31,015
	<hr/> <u>\$ 177,589</u>	<hr/> <u>\$ 146,951</u>	<hr/> <u>\$ 175,970</u>	<hr/> <u>\$ 116,930</u>
Net book value		<hr/> <u>\$ 30,638</u>		<hr/> <u>\$ 59,040</u>

6. Accounts Payable

	2018		2017	
Trade	\$ 2,009		\$ 2,129	
HST payable	105,180		50,780	
Roads	1,922,931		2,131,477	
Stumpage fees	380,094		586,480	
Wages	44,503		35,286	
	<hr/> <u>\$ 2,454,717</u>		<hr/> <u>\$ 2,806,152</u>	

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

7. Operating Reserve

The Board has established an operating reserve for the purpose of funding future possible operating deficits of Nawiinginokiima Forest Management Corporation. The release of these internally restricted amounts must be approved by representatives of the Board.

Subsequent to the year end, on December 20, 2018, the board approved an additional transfer to the operating reserve of \$2,000,000.

	2018	2017
Balance, beginning and end of year	\$ 300,000	\$ 300,000
Transfer from unrestricted net assets	<u>2,500,000</u>	-
Balance, end of year	<u>\$ 2,800,000</u>	<u>\$ 300,000</u>

8. Remuneration

Total remuneration of the Board members of the Corporation was approximately \$16,363 (\$16,925 - 2017) during the year.

9. Financial Risks and Concentration of Credit Risk

General objectives, policies and processes

The Board of Directors has overall responsibility for the determination of the Corporation's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure effective implementation of the objectives and policies to the Corporation's General Manager. The Board of Directors receives monthly reports from the Corporation's General Manager through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

NFMC is not exposed to significant interest rate or foreign currency risk.

Liquidity risk

Liquidity risk is the risk that NFMC encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, NFMC will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities and commitments. Management is of the opinion that the Corporation is not exposed to significant liquidity risk.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2018

9. Financial Risks and Concentration of Credit Risk (cont'd)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. NFMC is exposed to credit risk from its accounts receivable and roadside inventory advances. NFMC mitigates its potential credit risk through proactive credit management policies that include approval and monitoring processes. Certain receivables are from government sources and the Corporation works to ensure it meets all eligibility criteria in order to qualify to receive credits. Furthermore, it evaluates the collectibility of accounts receivable and roadside inventory and records an impairment allowance for doubtful accounts, which reduces the receivables to the amount management believes will be collected. At year end, NFMC's accounts receivable are as follows; current \$6,452,210 (\$1,490,943 - 2017), 31 to 60 days \$1,086,113 (\$593,533 - 2017), 61 to 90 days \$371,024 (\$76,973 - 2017), and over 90 days \$1,100,832 (\$136,811 - 2017).

10. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.