



Nawiinginokiima Forest
Management Corporation

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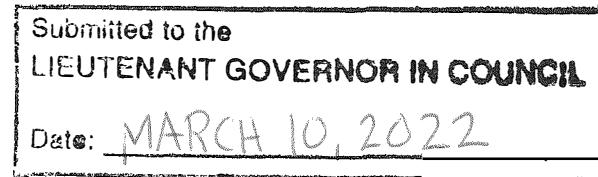
2019-2020 Annual Report

www.nfmcforestry.ca

Nawiinginokiima Forest Management Corporation
Annual Report
2019-2020

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Chair's Message

The 2019-2020 fiscal year brought operational stability to the Nawiinginokiima Forest Management Corporation (NFMC) with the transfer of Sustainable Forest License (SFL), amalgamation of two of our forests and continued operations from our Industry Stakeholders, however significant changes occurred at the Board level.

The Board of Directors struggled to maintain consistency as appointments and re-appointments were halted for a significant period of time. I was appointed as Acting Chair for the Corporation following the expiring term of our previous Chair, Grant Goodwin. The remaining Board members worked hard at maintaining our vision from the 2017-2021 Strategic Plan to ensure the progress of the Agency was not interrupted. The NFMC remains financially stable, our Operating Reserve has continued to increase while investing in strategic initiatives continues to be one of our key goals.

For the first time since its inception, we experience stability among NFMC's staff with every position filled for most of the year. Our staff's dedication to continue our progress on the Agency's 2017-2021 Strategic Plan's vision has been the corner stone to our success so far. Additionally, thanks to their efforts, the NFMC's commitment to being leaders in forest management practices continued through the third-party certification of the Pic and White River Forests.

The 2020-21 fiscal year will most certainly bring new changes to the Board with a number of expected appointments, which will help guide the Agency into a new Strategic Plan and continued vision to future successes. On behalf of the Board, we are proud to be part of this organization and look forward to what the next year brings us.

Respectfully,

Julie Roy-Ward

A handwritten signature in black ink that reads "Julie Roy-Ward". The signature is fluid and cursive, with "Julie" and "Roy-Ward" connected by a single stroke.

Acting Chair of the Board
Nawiinginokiima Forest Management Corporation

General Manager's Message

During the 2019-2020 fiscal year, Nawiinginokiima Forest Management Corporation (NFMC) continued to build upon the progress and successes the Agency has made since its inception in 2013.

With the SFLs already under NFMC's responsibilities, the 2019-2020 fiscal year saw the completion of the amalgamation for the Big Pic and Pic River Forests, into what is now known as the Pic Forest, one of the largest SFLs in the Province of Ontario. The SFL amalgamation resulted in operational efficiencies and planning benefits which did not previously exist.

With a full complement of staff, NFMC made the decision to expand its office footprint by moving to a new location within the Town of Marathon. NFMC now has the much-needed space for its staff to work comfortably and efficiently in one building and to manage our administrative responsibilities effectively.

Our silviculture program saw an investment of over \$3.5 million in renewing our forests, highlighted by the planting of 7 million trees across the management area, the biggest plant in NFMC's history to date.

During the 2019-2020 fiscal year, NFMC moved forward with the anticipated 2021-2031 Forest Management Plan (FMP) for the newly created Pic Forest. Thanks to the collaboration of our local First Nation communities, the Ministry of Natural Resources and Forestry, Local Citizens Committees and industry stakeholders, NFMC is optimistic that our new 10-year FMP will be in place prior to the end of the up coming fiscal year.

Health and safety is at the forefront of our responsibilities. NFMC is committed to the Safe Workplace Ontario (SWO) certification program and continues to work with contractors on the management area to maintain or achieve certification. NFMC is proud that during the 2019-2020 fiscal year the Agency took the important step to make the SWO certification a mandatory requirement on both the Pic and White River forests.

An important highlight of the 2019-2020 fiscal year was NFMC awarding its first two scholarships under one of its Strategic Initiatives Programs. Going forward, NFMC endeavors to heavily promote its Scholarships Program in order to reward up to twelve scholarships annually to students from various communities on its management area.

The NFMC foresees unavoidable operational and financial uncertainty due to the Coronavirus pandemic which arose during the fourth quarter of the 2019-2020 fiscal year. NFMC hopes to continue to provide operational stability to its industry stakeholders, implement new initiatives for economic development opportunities with our local communities, while managing and mitigating the challenges of the pandemic.

Carmelo Notarbartolo



General Manager
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.

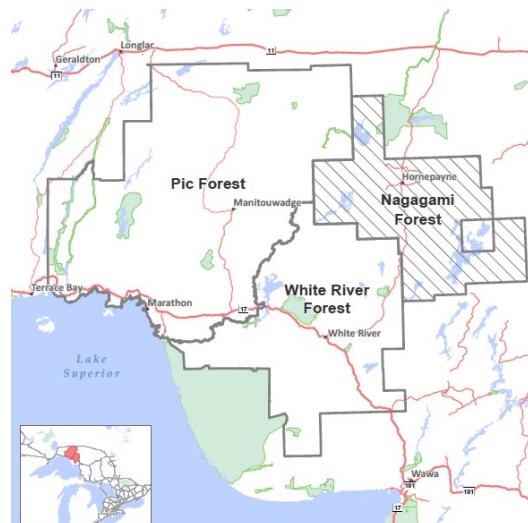


Figure 1. Map of NFMC Management Area (as of March 31, 2020)

The management area in 2019-20 was comprised of two forest management units (FMUs): Pic Forest and White River Forest, leaving only the Nagagami Forest outstanding from the original concept of what the NFMC management area would look like.

NFMC, a classified operational enterprise Crown Agency, is self-financing with the mandate to sustainably manage the forests within its mandated area and to harvest, market and sell the associated available wood supply. Forestry activities

on these forests are carried out under the authority of approved FMPs. 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.

1.2 Mandate

The NFMC completed a mandate review in 2018 and did not receive a mandate letter for 2019-20. The NFMC was guided by the direction in prior years' mandate letters, direction from the Board of Directors as well as the objects of the LFMC detailed in the OFTMA. 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 Indigenous 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 2017, NFMC initiated a strategic planning exercise that resulted in the document "Working Together – Strategic Plan 2017-2021" that established the priorities for the next five years. NFMC will strive to be recognized as a leader in sustainable forest management by implementing its vision to "manage forests in an exemplary manner to provide distinct opportunities to our communities."

1.3 Mission Statement

The mission of the NFMC is:

To hold forest resource licences and sustainably manage Crown forests in accordance with the CDSA 1994 and to promote the sustainability of Crown forests.

To provide for economic development opportunities for Indigenous peoples.

To become a self-sustaining business entity and to optimize the 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.

1.4 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.

2.0 Description of Activities

Activities of NFMC are guided by the conditions of the licences it holds, consistent with the requirements of the CFS and the OFTMA. The NFMC has four major program areas:

1. Forest Management Planning,
1. Forest Operations (including harvesting, renewal, roads and compliance activities),
3. Economic development initiatives, and
4. Timber sales and marketing.

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

NFMC continued to establish 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 Pic and White River SFL's.

During the 2019-2020 fiscal year, 651,000 m³ of wood was delivered from the White River and Pic Forests to receiving mills. This is an increase over the previous year when the NFMC delivered 627,000 m³, however the deliveries were 167,000 m³ below the budgeted levels. The unfavourable variance was on the White River Forest and can be attributed to challenges that White River

Forest Products encountered with its contractors plus reduced operating levels due to low lumber prices. The primary customers were AV Terrace Bay Inc., Lecours Lumber Co., Levesque Plywood Limited, White River Forest Products, Hornepayne Lumber LP and Longlac Lumber Inc. Most volume was delivered by four primary contractors on the management area, B&M Hauling Ltd., Kabi Lake, AMIK Logging Limited Partnership/Lecours Lumber, and AV Terrace Bay Inc. The NFMC is moving forward on strategic initiatives to increase contractor capacity, specifically through arrangements that support local and First Nation economic development which should increase deliveries.

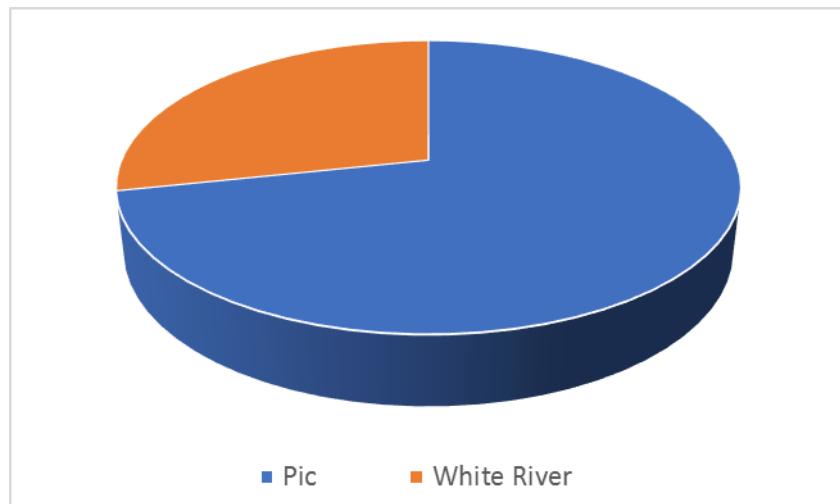


Figure 2. NFMC harvest by SFL

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
13 Hemlo Drive
Marathon, ON P0T 2E0
Phone: 807-229-8118
Website: www.nfmcforestry.ca

General inquiries: contact@nfmcoffice.ca

The NFMC also maintains a satellite office in White River to support operations on the White River Forest.

2.2 Forest Certification and Environmental Policy

Forest Certification

The NFMC maintained its Forest Stewardship Council (FSC®) certification on the White River and 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 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.

2.3 Forest Product Markets

NFMC supplies four main forest product sectors: lumber, panel, pulp and paper and forest biomass. Commodity prices, in particular lumber, dropped during the year and are expected to remain low. The COVID-19 pandemic struck at the end of the fiscal year and did not have a significant impact on 2019-20. The outlook for 2020-21 is uncertain. Northern Bleached Softwood Kraft (NBSK) prices showed some resilience during the initial stages of the pandemic and may hold through 2020-21. Lumber prices may remain low as they are tied closely to the United States housing markets which is in-turn related to the overall economy. The speed of the recovery is unknown, and projections vary greatly.

2.4 Community Engagement

The GM and Board have made efforts to regularly 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.

Following the transfer of the White River SFL, the NFMC was able to provide the long-promised assistance to Pic Mobern FN to increase their forestry capacity. NFMC has worked with Pic River FN to help them start harvesting activities and develop road maintenance capacity. 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.

Training & Human Resources Development

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

3.0 Analysis of Operational 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 the achievement of the objectives for the Agency (as described in the OFTMA). Outcomes are being developed and will be introduced in the subsequent annual report. The NFMC's performance measures and achievements are outlined below.

1. World class forest management company

- Maintained third party FSC Certification on the White River Forest and the Pic Forest.
- Completed the amalgamated Contingency Plan for the Big Pic and Pic River Forests (now known as Pic Forest).
- Addressed IFA action plan items (IFA's have not been formally tabled).

2. Becoming financially self-sufficient

- Cash on hand on March 31/2020 is almost \$10 million.
- NFMC set its operating reserve at \$5.4 million on March 31, 2020 in segregated funds.

3. Extending scope of usage

- Commitment volumes made available but not fully utilized due to operational factors and conditions facing certain customers.
- 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.

4. Meeting governance requirements

- Timely submission of SFL Business Plan, and Agency Business Plan to MNRF.
- Posted reports to its website; including travel, meal and hospitality expenses to the website for public disclosure.
- Governance training provided to board members where required or requested.

5. Building new local forest related industry

- Delivered volume increased by 13% from the previous year and 25% from 2018-2019.
- Made payment to Pic Mobert as part of a plan to increase the Band's forestry capacity and increase volume available to local mills.
- Continued to develop policies for implementation in 2020-2021.

6. Establishing a new baseline for First Nation engagement

- Moved forward on strategic initiatives related to road maintenance and harvesting capacity with a local First Nation. Invested over \$1 million in payments to Indigenous contractors for services or in direct support.
- Board included a representative of Pic Mobert First Nation during the year. The Pic River First Nation position remains vacant at year-end however NFMC worked with the Community to identify and put forward a new representative who is in the appointments process.
- NFMC travelled to area First Nations to review planned operations and have a dialogue with chiefs, councils and band members, including trips to Longlac, Pic River, Pic Mober.
- 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 Marathon, Manitouwadge, Hornepayne and White River as well as at large members during the year. Some of these position's tenure expired and remain vacant at year-end. NFMC is working with the communities hoping to have them filled as quickly as possible.
- Staff attended community educational events and tradeshows across the region including Marathon, Terrace Bay, Longlac, Thunder Bay.
- Recruiting community members to fill other vacant positions to increase the representation of northern communities.
- The NFMC awarded scholarships to local students under its scholarship program. The program is open to students from NFMC communities studying relevant fields.
- Articles related to NFMC appeared in the Marathon Mercury, Wawa News, Working Forest, and Northern Ontario Business.
- NFMC is a member of the Ontario Forest Industry Association, which serves to provide a unified voice to the government and other industrial and business sectors.

3.2 Operational Performance

The NFMC's core business and primary performance measures consist of harvest volume and area-based forest management programs (also referred to as forest renewal or silviculture) and financial results. During the 2019-2020 fiscal year, the volume harvested on the management area was approximately 651,000 m³ which was below the budget of 818,000 m³.

Most of the volume is softwood, which accounted for almost 95 percent of the deliveries. Softwood demand has remained stable over the last three years, and is projected to increase in the next three. The NFMC was able to meet its biomass delivery targets but the market for merchantable hardwood is still a challenge.

Mill	Location	Product
AV Terrace Bay	Terrace Bay	Pulp/Biomass
Lecours Lumber Co. Ltd	Hearst	SPF Lumber
Levesque Plywood Ltd	Hearst	Poplar Veneer
Longlac Lumber Inc	Longlac	SPF Lumber
Horne Payne Lumber LP	Horne Payne	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 75 percent of delivered volume from the NFMC management area.

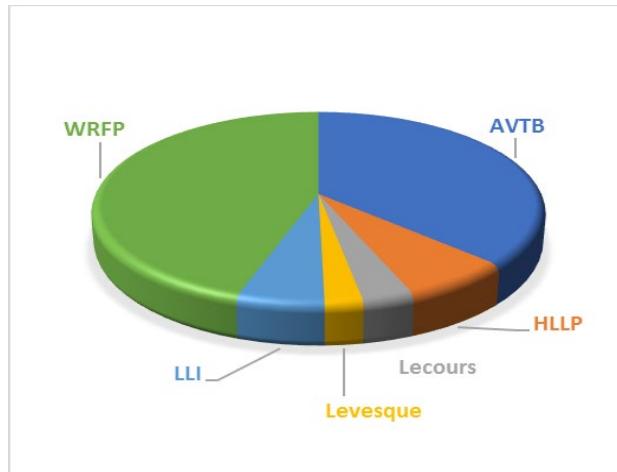


Figure 4. Volume distribution by destination 2019-2020

The volume has increased over the last three years but has not reached the target level in any year.

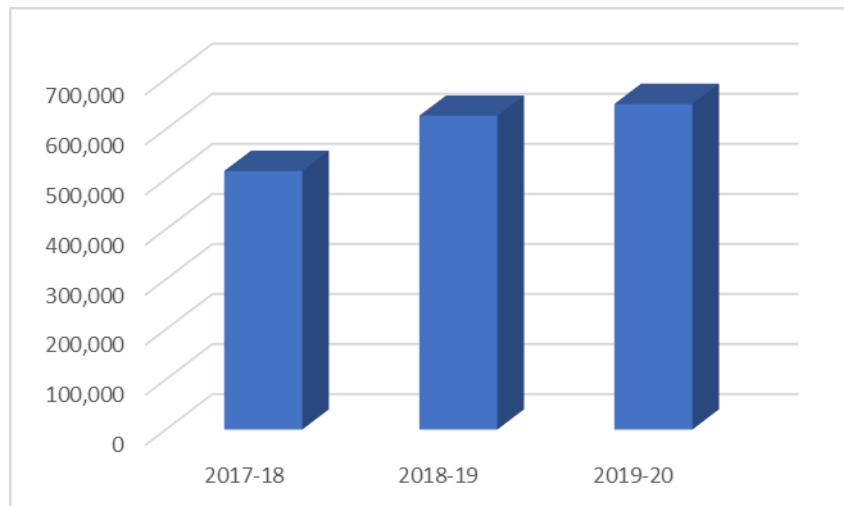


Figure 4. Volume Harvested 2017-18 to 2019-20

The NFMC has continued responsibility for the maintenance 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 maintains a 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's silvicultural program spending from the Forest Renewal Trust for 2019-20 was almost \$3.6 million. 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.

Stock Production	6,146,000 trees
Planting	7,058,000 trees

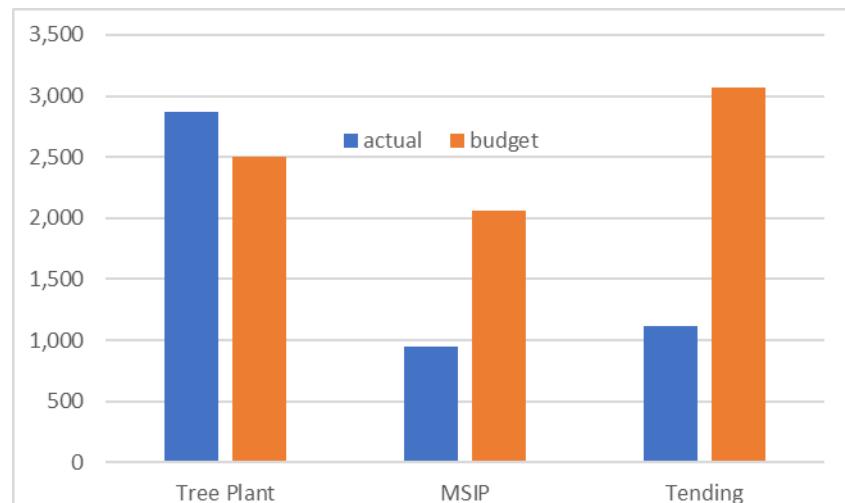


Figure 5. Compare Actual Silvicultural Area Treated (ha) versus Budget for 2018-2019

The program included the following activities in 2019-2020:

Mechanical Site Prep	1,084 ha
Debris Management	3,402 ha

4.0 Analysis of Financial Performance

The Agency appointed an independent auditor to review the accounts and financial transactions of the Agency for 2019-2020 (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 recorded a net income of \$2 million in 2019-2020 compared to net income for 2018-2019 of \$2.6 million. The difference is primarily due to the receipt of the balance of LFMC funds from the Forestry Futures Trust for the White River, Big Pic and Pic River Forests last year. The 2019-2020 fiscal year ended before serious COVID restrictions were put in place. The forest products market was strong last year and all area mills operated for the entire year.

Balance Sheet

The NFMC maintained its cash position at almost \$10 million during the 2019-2020 audit period. The balance of accounts receivable at the end of the audit period was \$6 million, including long term receivables. 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 administration and permit fees receivable from various mill customers and overlapping licensees.

The NFMC moved into a larger office space in the high school to accommodate its growing staff. The NFMC invested \$150,000 in improvements and modifications to the building. The NFMC also updated some of its computers and software as machines reached their expected lifespan 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 \$2 million and are primarily related to the accrued Crown dues including deliveries in January-March 2020 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.

The operating reserve was set by the board at \$5.4 million for March 31, 2020. This is an increase of \$600,000 from 2018-2019. The reserve provides the NFMC management with funds to cover three years of regular operations.

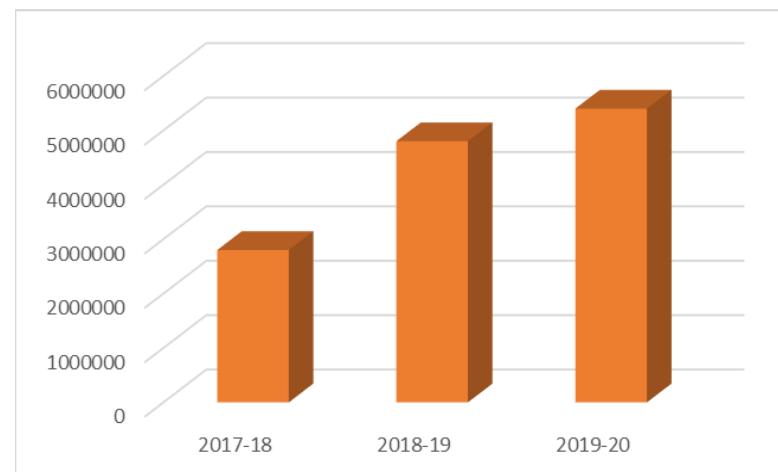


Figure 6. Operating Reserve 2017-18 to 2019-20

Revenues

Revenues from management 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 \$7.2 million. Operating revenues from administration and similar fees for the audit period were almost \$580,000. Also, in 2019-2020 the NFMC collected residual stumpage charges of \$840,000 as the price softwood pulp and lumber exceeded the benchmark level during the year. The former minimum stumpage (sometimes referred to as CRF) and residual charges are referred to collectively as Timber Sales Charges on the income statement and reached \$3 million.

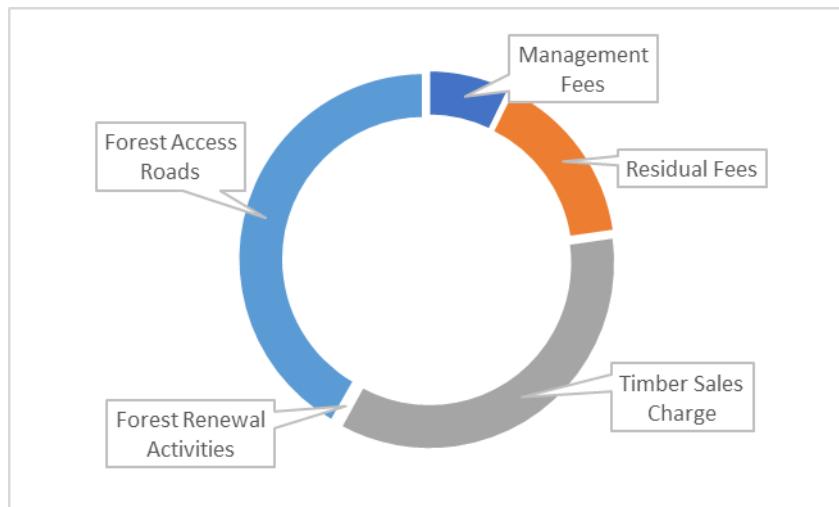


Figure 7. Revenue by Source 2019-2020

Roads funding for the audit period was \$3 million which includes funds received from the provincial forest access roads program and \$300,000 as part of the agreement with the MTO to maintain the Industrial Road. The Industrial Road is an important throughfare for the industry to move wood from one side of the unit to the other and it is also used by local residents to connect communities.

Total revenue in 2019-20 was lower than the previous year despite an increase in delivered volume due to a reduction in the management fee from \$0.96 to \$0.86. The amount of residual fees received in 2019-2020 was lower as the price of lumber and pulp was lower in 2019 than in 2017 and 2018. In addition, in 2018-2019 the NFMC received \$700,000 the balance of funds held in trust by Forestry Future Trust for the White River Forest and in 2018-19 it received the balance of funds held in trust for the Big Pic and Pic River forests.

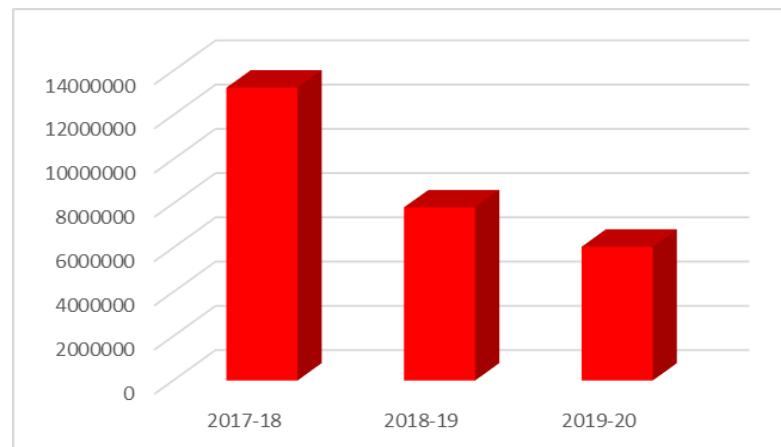


Figure 8. NFMC Revenue 2017-18 to 2019-20

Expenditures

Wages and benefit costs incurred during the audit period totalled \$1 million an increase from prior year due to filling of openings in full time technical and operating staff during the year. The NFMC saw a corresponding decrease in the use of contractors that provide forest management, GIS, supervision and other similar services.

The Board of Director's expenses including remuneration and expenses totalled \$13,000, 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 \$230,000 such as finalizing the FMP preparation and operations supervision.

The largest expenditure during the period was road construction and maintenance costs totalling almost \$3 million, most which were recovered during the year from the MNRF Roads Program or the MTO Industrial Road agreement. NFMC also began studying and planning future capital expenditures to improve access to new harvest areas and replace some of the aging infrastructure on the units.

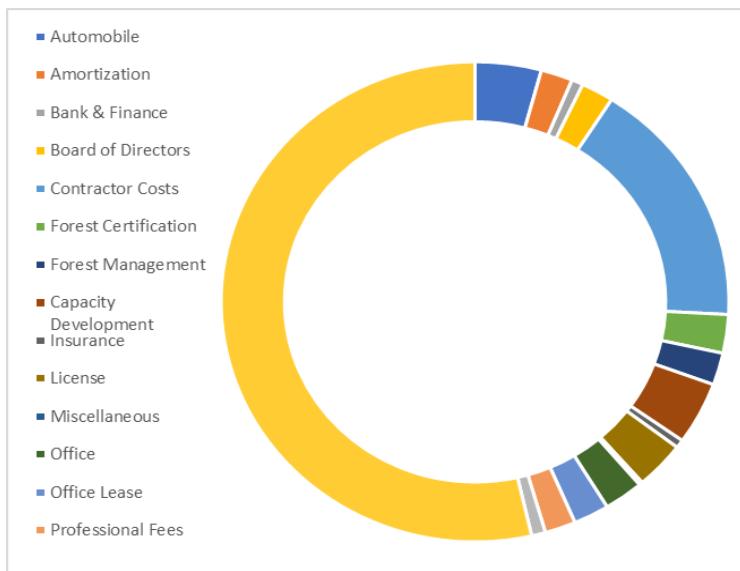


Figure 9. Distribution of Expenses by Type for 2019-2020

The NFMC incurred professional fees of \$61,000 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 a thorough review by its lawyers and auditors. The NFMC incurred legal fees involving the USWA on the White River Forest. NFMC also spent \$45,000 on engineering and technical services for road infrastructure improvements.

The NFMC incurred office-related expenses of \$77,000, including rent. The NFMC moved into a new office that provided the agency with a larger space to accommodate the new staffing levels at a lower rent than was paid previously. Additional expenditures included costs of \$70,000 to maintain the Forest Stewardship Council certification for the Pic and White River Forests. The NFMC incurred \$45,000 in vehicle, mileage and travel expenses during the year.

The NFMC invested \$20,000 in training and development for staff and board members during the year. Per its mandate, the NFMC supported \$35,000 in training and capacity development to provide for opportunities and a greater

role for local and Indigenous communities in the management of Crown forests. The NFMC also supported First Nations capacity development by investing in Indigenous communities through its strategic initiatives program. The funds were used primarily to train employees at First Nations based contractors that operated on the management area during the year. The NFMC was also a supporter of the First Nations Ranger program operated by Outland that trained First Nations youth for forestry positions in a culturally supportive environment. The NFMC also invested in an initiative with the Town of Marathon and other contractor training.

5.0 Risk Events and Mitigation Strategies

As a Crown Agency, there is a need to regularly identify, assess and manage any risks to the achievement of Agency, Ministry and/or government objectives. To do this, the NFMC follows the risk assessment and risk management process outlined in the Guide to the Risk-Based Approach. Annually, the NFMC completes its Risk Assessment Report and Risk Management Plan and submits it to the CMID.

The NFMC reports its risks quarterly and the circumstances at the time dictate the risk elements identified as well as what the risk level is and the impact of each element. During 2019-20, there were no significant risks identified, but some minor risks were overcome related to markets and receivables from its customers. The NFMC has initiated strategic initiatives aimed at increasing the contractor base on the landbase as well as improving infrastructure to allow more wood to be delivered. NFMC will continue to work with mills to ensure it is able to meet demand at competitive prices.

The mandate of the NFMC requires operating as a self-financing business, which includes establishing an operating reserve to ensure continued sustainability in response to variations in economic cycles. The NFMC increased the amount in the operating reserve and now has approximately three years of operating costs in its reserves. In addition, the NFMC set aside money in the budget to address unforeseen events and developed an Unforeseen Events Policy.

The current NFMC Board is made up of three representative from Hornepayne, White River and Manitouwadge. During much of 2019-2020 the board was at the minimum membership and was difficult to function due to scheduling. Also, many decisions were delayed as the board members were waiting for the appointment of new members to fill the community positions and broaden its functional knowledge base and experience.

The NFMC's unique mandate requires specialized administrative functions including a forest products business-focused financial department and systems support. The NFMC workforce is highly skilled and is highly mobile in today's economy. NFMC experiences high rates of turnover as these skilled employees leave for positions which may offer better pay and benefits or for family related reasons. Skilled and experienced employees are critical to business continuity

and delivery of required programs and support functions. The risk that the NFMC faces is not being able to attract and retain qualified and motivated employees, leading to performance issues, business and service continuity risk.

The NFMC has obtained, and will maintain, insurance appropriate for a prudent business in similar circumstances to the Corporation including comprehensive general liability insurance and Directors and Officer's obligation insurance.

The biggest risk currently facing the NFMC is from the fallout of the economic shutdown in response to the coronavirus. The forest sector in Northwestern Ontario is highly dependent upon the US housing market as the main driver of demand. The U.S. housing market started 2020 with a bang, including upticks in home prices and home sales. New-home sales increased 14.3% year over year for the same February 2019 to February 2020. Then the coronavirus outbreak took hold in early March, leading to an economic slowdown, staggering job losses and uncertainty for millions of homebuyers and sellers across the country during the spring home buying season. The result was a drop in lumber prices and closures of local sawmills. How long it will take the economy to recover is an unknown.

The coronavirus also had an impact on the finances of the provincial government. The government responded to the economic crisis with an increase in spending to mitigate the impacts and then provide an economic stimulus. At the same time the revenue the government receives decreased as sales and incomes dropped. The result is the provincial's government debt and deficit targets have been missed. How the provincial government will respond post-coronavirus is uncertain. NFMC is a self-financing agency and does not receive funds directly from the province so austerity measures will not impact it directly but may effect the level of support it receives from organizations such as the MNRF.

Environmental Policy

The NFMC recognizes environmental protection as one of our guiding principles and a key component of sound business performance. The NFMC has an established Environmental Policy with an ongoing commitment 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 continuing third party 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.

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 in 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 honour 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 in 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 complementary health and safety training courses to the various stakeholders in its management area. The NFMC provides financial support to its contractors that require health and safety training for its employees.

6.0 Board of Directors

The Board functioned with the minimum level of members for most of the year. At the end of 2019-20 there were only three members of the board. The terms of the Chair and Vice-chair expired during the year, as well as the member from Marathon. In June 2020, the tenure of the representatives of White River and Pic Mobert First Nation expired and the board was reduced to a single member. The board was intended to include representatives from Manitouwadge, Marathon, White River, Pic Mobert First Nation, Pic River First Nation, Hornepayne, plus members-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 2020-21. 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 three NFMC Board members in place at March 31, 2020 and their tenures are listed below.

Member Name	Position	Community	Tenure
Julie Roy-Ward	Acting Chair	Hornepayne	02-May-2019 – 02-May-2022
Tina Forsyth*	Member	White River	28-Jun-2017 - 27-Jun-2020
Donald Fry*	Member	Pic Mobert First Nation	28-Jun-2017 - 27-Jun-2020

**Board Member has applied for an additional term and is being processed by Public Appointments Secretariat*

Table 1. Current NFMC Board Members

The board of the NFMC achieved an important diversity milestone in 2019-20 when more than half of the members were female.

1.3 Board Committees

In accordance with the OFTMA, the Board has established four standing committees. However, due to the expiration of board members tenures only the finance committee functioned during the year.

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: Julie Roy-Ward, John MacGillivray

Governance Committee

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

Chair: To be determined

Members: To be determined

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: To be determined

Members: To be determined

Advisory Committees

Also, in accordance with Bylaw #1 the Board may establish a Stakeholder Advisory Committee whose membership will consist of individuals other than the current 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. The NFMC believes the committee will be established following the term of the current contingency plan.

Chair and Members: To be determined

General Manager

The General Manager (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.

Organizational Chart (March 31, 2020)

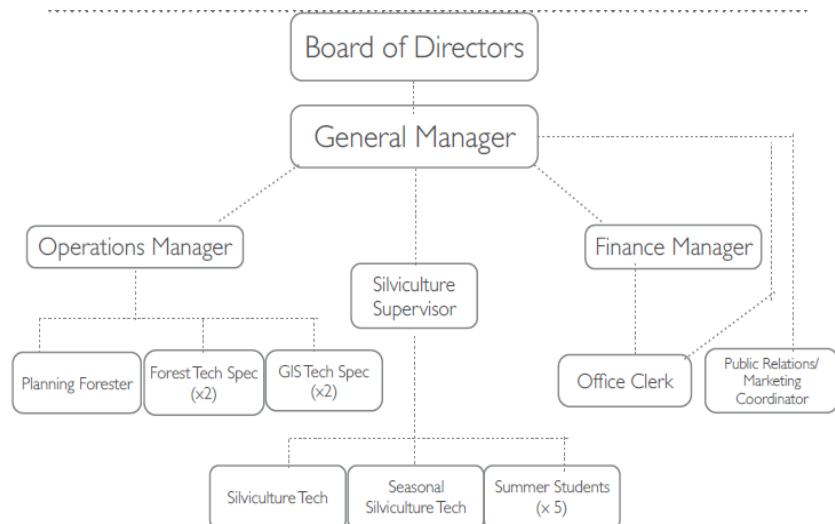


Figure 10. NFMC organizational chart

Staff Numbers

The organizational structure for NFMC has been designed to be scalable and flexible to accommodate the needs of the Corporation as SFLs and associated responsibilities are assumed. The NFMC plans to maintain current staffing levels in 2020-21 and does not expect significant changes in 2021-22. There may be changes in 2022-23 if the Nagagami Forest is transferred to NFMC management. The NFMC increased staffing levels in 2019 in order to handle the additional responsibilities of the White River forest as well as achieve its objects as outlined in the OFTMA. 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. The management team continues to strive to make the NFMC a desirable place to work.

The NFMC has recognized that there is a large pool of knowledge available from consultants/service providers/subject matter experts it can draw from. The NFMC will continue to use consultants for specialized tasks where the NFMC's staff may not be experienced or have the resources to complete.

7.0 The Path Ahead

NFMC now controls its primary SFLs and has started implementing the core of its mandate. We have awarded scholarships to help post-secondary students from local communities in natural resources fields of study. We also 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.

The management of the NFMC believes its staff are the Agency's greatest asset. 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 corporation will work to create an environment that encourages each staff member to achieve their full potential by encouraging professional development and growth.

One of NFMC's priority areas for 2020-2021 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 as outlined in NFMC's Strategic Initiative Policy.

Before the coronavirus, the increased demand put pressure on NFMC, and its harvesting contractors and receiving mills. NFMC developed plans 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.

Following the coronavirus lockdowns in Canada and the United States the demand and prices for wood products has decreased. NFMC is working to reduce the cost of its operations which impacts the cost of wood for the receiving mills. The agency is focused on reducing the administration fees charged to mills as well as its renewal rate. We will work with our contractors to develop cost effective silviculture treatments that enhance forest health and productivity.

NFMC will look to broaden the market for its products by working with new entrants. Attracting new investments means new jobs and a priority for NFMC

will be to find additional markets for under-utilized species such as poplar and birch. We believe that there are opportunities for future growth in the forest products sector. The softwood volume is expected to be fully utilized by local mills, so we will be looking for opportunities to market the hardwood.

NFMC will begin to review its current capital assets to assess their life cycle. The Board has proposed a strategic review of assets, especially forest access roads. NFMC management area has a number of roads, bridges, and culverts that have been in place for decades and the agency needs to plan for their replacement or develop a maintenance schedule to prolong their life.

8.0 Audited Financial Statements

**Nawiinginokiima Forest
Management Corporation
Financial Statements**
For the year ended March 31, 2020

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Independent Auditor's Report

To the Board of Directors of
Nawiinginokiima Forest Management Corporation

Opinion

We have audited the financial statements of Nawiinginokiima Forest Management Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2020, and the statements of operations and accumulated net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2020, and its results of operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards for not-for-profit organizations.

Basis for Opinion

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

Emphasis of Matters - Comparative Figures

We draw attention to Note 2 of the financial statements, which explains that certain comparative information for the year ended March 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

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 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.

In preparing the financial statements, management is responsible for assessing the Corporation'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 management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

Independent Auditor's Report (cont'd)

Auditor's Responsibility for the Audit of the Financial Statements

Our 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 our 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation 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.

We 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 we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
May 21, 2021

Nawiinginokiima Forest Management Corporation Statement of Financial Position

March 31	2020	2019
		As restated (Note 2)

Assets

Current		
Cash	\$ 9,748,448	\$ 7,246,048
Accounts receivable (Note 4)	4,650,680	5,561,284
Prepaid expenses (Note 10)	111,379	100,000
	14,510,507	12,907,332
Long term receivables (Note 4)	1,409,764	1,295,624
Long term prepaid expenses (Note 10)	100,000	200,000
Roadside inventory (Note 5)	900,000	900,000
Property, plant and equipment (Note 6)	150,500	10,540
	\$17,070,771	\$ 15,313,496

Liabilities and Net Assets

Current		
Accounts payable and accrued liabilities (Note 7)	\$ 2,016,445	\$ 2,273,784
Net assets		
Unrestricted	9,654,326	8,239,712
Operating reserve (Note 8)	5,400,000	4,800,000
	15,054,326	13,039,712
	\$17,070,771	\$ 15,313,496

On behalf of the Board:

 Director

 Director

**Nawiinginokiima Forest Management Corporation
Statement of Operations and Accumulated Net Assets**

For the year ended March 31	2020	2019 As restated (Note 2)
Revenue		
Management fees	\$ 577,200	\$ 472,399
Forestry Futures Trust	-	617,612
Forest renewal activity	475,539	284,647
Forest access roads	3,066,404	3,378,758
Timber sales charges	3,003,199	3,250,599
Other	66,889	1,537
	7,189,231	8,005,552
Expenses		
Amortization	10,040	20,098
Automotive	45,687	21,258
Bank and service fees	14,532	14,442
Bad debt (recovery)	6,346	(9,841)
Board of Directors activities	12,603	23,960
Community/First Nation training and development	181,968	203,933
Contract services	53,061	249,185
Forest certification	69,225	58,350
Forestry equipment & supplies	41,103	68,211
Forest management services	228,890	450,516
Human resources development	58,156	44,574
Insurance	55,684	10,749
Licenses and subscriptions	19,511	17,056
Miscellaneous (recovery)	(738)	2,927
Office	77,195	76,745
Professional fees	61,475	71,991
Public access road maintenance	3,186,227	3,253,735
Public relations	52,413	15,551
Wages and benefits	1,001,239	839,254
	5,174,617	5,432,694
Excess of revenue over expenses for the year	2,014,614	2,572,858
Net assets - unrestricted, beginning of the year	8,239,712	7,666,854
Transfer to operating reserve (Note 8)	(600,000)	(2,000,000)
Net assets - unrestricted, end of the year	\$ 9,654,326	\$ 8,239,712
Net assets - internally restricted, beginning of the year	\$ 4,800,000	\$ 2,800,000
Transfer from operating reserve (Note 8)	600,000	2,000,000
Net assets - internally restricted, end of the year	\$ 5,400,000	\$ 4,800,000

**Nawiinginokiima Forest Management Corporation
Statement of Cash Flows**

For the year ended March 31	2020	2019
		As restated (Note 2)
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 2,014,614	\$ 2,572,858
Item not involving cash:		
Amortization	10,040	20,098
	<hr/>	<hr/>
	2,024,654	2,592,956
Change in non-cash working capital items:		
Accounts receivable	910,604	2,320,962
Prepaid expenses	(11,379)	(100,000)
Accounts payable and accrued liabilities	(257,339)	(380,933)
	<hr/>	<hr/>
	2,666,540	4,432,985
Cash used in investing activities		
Long term receivable advances	(114,140)	(222,092)
Decrease (increase) in long-term prepaid expenses	100,000	(200,000)
	<hr/>	<hr/>
	(14,140)	(422,092)
Cash used in capital activities		
Purchase of property, plant and equipment	(150,000)	-
	<hr/>	<hr/>
Increase in cash during the year	2,502,400	4,010,893
Cash, beginning of year	7,246,048	3,235,155
	<hr/>	<hr/>
Cash, end of year	\$ 9,748,448	\$ 7,246,048

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

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, 2020

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, 2020

2. Prior Period Adjustment

During the current year, the Corporation determined that accrued liabilities existed related to the White Lake Limited Partnership harvester commitment that had not been recognized in prior year's financial statements. As a result of the error, opening net assets were overstated and Community/First Nation training and development expenses and trade payables were understated. This error has been corrected retroactively with restatement of prior periods. The prior period figures have been adjusted as follows:

	Previously Reported	Adjustment	As Restated
Prepaid expenses	\$ 200,000	\$ (100,000)	\$ 100,000
Long term prepaid expenses	300,000	(100,000)	200,000
Trade payables	1,352,387	99,822	1,452,209
HST payable	103,110	(48,988)	54,122
Community/First Nation training and development expenses	153,099	50,834	203,933
Net assets - unrestricted, beginning of the year	7,866,854	(200,000)	7,666,854
Net assets - unrestricted, end of the year	8,490,546	(250,834)	8,239,712

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

3. 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 Mobert 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.

4. Accounts Receivables

	2020	2019
Roads program	\$ 1,473,743	\$ 2,113,241
Stumpage fees	2,632,411	1,976,124
Trade	1,957,168	2,154,931
Forestry Futures Trust - LFMC	2,122	617,612
Less: long term portion	6,065,444	6,861,908
Less: allowance for doubtful accounts	(1,409,764)	(1,295,624)
	<u>(5,000)</u>	<u>(5,000)</u>
	\$ 4,650,680	\$ 5,561,284

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

5. 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, 2020 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.

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.

6. Property, Plant and Equipment

	2020		2019	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 67,167	\$ 67,167	\$ 67,167	\$ 67,167
Leasehold improvements	170,000	19,500	20,000	10,000
Computer software	49,215	49,215	49,215	49,215
Computer equipment	41,207	41,207	41,207	40,667
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 327,589	\$ 177,089	\$ 177,589	\$ 167,049
Net book value		\$ 150,500		\$ 10,540
	<hr/>	<hr/>	<hr/>	<hr/>

7. Accounts Payable

	2020		2019	
Trade	\$ 180,278	\$ 1,452,209		
HST payable	109,458	54,122		
Roads	1,467,571	529,541		
Stumpage fees	205,287	198,228		
Wages	53,851	39,684		
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 2,016,445	\$ 2,273,784		
	<hr/>	<hr/>	<hr/>	<hr/>

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

8. 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.

On March 23, 2020, the board approved an additional transfer to the operating reserve of \$600,000.

	2020	2019
Balance, beginning and end of year	\$ 4,800,000	\$ 2,800,000
Transfer from unrestricted net assets	<u>600,000</u>	<u>2,000,000</u>
Balance, end of year	<u><u>\$ 5,400,000</u></u>	<u><u>\$ 4,800,000</u></u>

9. Remuneration

Total remuneration of the Board members of the Corporation was approximately \$6,800 (\$13,745 - 2019) during the year.

10. Commitments

During the previous year, NFMC entered into a five-year harvester agreement with White Lake Limited Partnership to cut and deliver wood fibre to White River Mill at a cost of \$2.00 per cubic metre. As part of the agreement, a minimum \$100,000 per year will be paid to White Lake Limited Partnership, of which \$500,000 has been advanced as at March 31, 2019. The balance outstanding as at year end March 31, 2020 is \$200,000. Deliveries by White Lake Limited Partnership cannot exceed \$200,000 in any given year of the agreement and total deliveries over the five-year agreement cannot exceed \$1,000,000.

During the year, NFMC entered into a memorandum of understanding with Provectus Robotics Solutions Inc. to test and demonstrate the use of semi-autonomous and autonomous operation of drive by-wire converted trucks and trailers on logging road terrain. As part of the memorandum of understanding, a minimum of \$330,000 has been committed by NFMC for the purchase of trucks and hardware prior to January 31, 2021.

During the year, NFMC entered into 10 year office lease agreement, with a 10 renewal option, at an annual cost of \$30,221. Monthly lease payments are adjusted annually on September 1st, based on the building operating costs incurred by the lessor in the previous year.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

11. 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.

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 \$788,068 (\$1,258,541 - 2019), 31 to 60 days \$681,941 (\$2,672,226 - 2019), 61 to 90 days \$1,346,156 (\$433,186 - 2019), and over 90 days \$3,249,279 (\$2,012,846 - 2019).

Approximately 40% (42% - 2019) of NFMC's total revenues for the year and 68% (55% - 2019) of year end trade receivables was derived from three mills operating in Northwestern Ontario.

NFMC is exposed to a credit risk as cash balances held with one institution exceeds the federally insured limit.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2020

12. COVID-19 Impact

The COVID-19 global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The Corporation's ability to continue to meet obligations as they come due is dependent on the continued ability to generate earnings and cash flows.

13. Comparative Figures

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