

Nawiinginokiima Forest Management Corporation

2021-22 Annual Report



Nawiinginokiima Forest
Management Corporation

Chair's Message

The 2021-22 fiscal year saw Nawiinginokiima Forest Management Corporation (NFMC) continue to strengthen its financial position during a period of strong lumber and pulp markets. As Canada recovered from the COVID pandemic, NFMC's strategic initiatives and economic development projects ramped up, allowing the Board and staff to really begin seeing the benefits the Agency can offer to local communities, First Nations, and industry, thanks to the Local Forest Management Corporation model NFMC was established under.

As a Board, we want to carry this momentum into future years and have thus begun the process of establishing a new five-year Strategic Plan (2022-2027) that will guide the Agency through the next phase of its growth. The Board will concentrate on new challenges, exploring new economic development opportunities, and strengthening our local Communities and forest industry. The Board endeavors to creatively find ways to use NFMC revenues to meet Agency objectives while also assisting industry stakeholders in tackling some of the many challenges the forest sector faces.

The Board looks forward to creating and launching the 2022-2027 Strategic Plan, while NFMC's amazing staff implement its vision and direction for years to come.

Respectfully,



Laird Van Damme, on behalf of the Board of Directors
Nawiinginokiima Forest Management Corporation

Submitted to the
LIEUTENANT GOVERNOR IN COUNCIL

Date: JANUARY 19, 2023

General Manager's Message

The 2021-22 fiscal year proved to be operationally challenging but financially rewarding for NFMFC. The Agency made improvements on several fronts but also faced some recurring problems that need to be resolved.

From an operational point of view, NFMFC missed its harvest targets on both the Pic and White River forests by a fair margin. This is a trend that has carried over from the prior year and one that requires attention and effort from a number of fronts to address. Human resource capacity at all levels within the forest industry has been a challenge. This challenge has been further cemented by the lack of interest and/or investment in the trucking and harvesting parts of the forest industry.

Lumber markets however, continued their positive momentum from 2020-21. Strong pulp and lumber prices helped NFMFC outperform its revenue estimates and left the Agency in a financial position more secure than anticipated as it benefitted from record residual value revenues. The strong financial position allowed NFMFC to reach its high-end target for its operating reserve. In addition, our Strategic Initiatives and Scholarships and Sponsorship Programs received the most uptake the NFMFC has had to-date. The total investment in our communities exceeded \$450K in 2021-22.

Our staff's commitment and effort was very evident again this fiscal year- not only in facing challenges from the pandemic but also encountering issues from turnover at key positions within the Agency. Some major successes at the Agency in 2021-22 include: our Programs and key initiatives went ahead as planned with minimal issues or delays, the successful completion of our Silviculture Program (highlighted by the planting of 5.7 million trees), maintaining FSC® certification on both forests, beginning a pilot project of testing a semi-autonomous vehicle solution, and finally identifying bioeconomy development opportunity zones within our management area.

In conclusion, the 2021-22 fiscal year was financially strong for NFMFC. Many challenges remain such as increasing harvest capacity on the forests, providing more economic development opportunities for our local residents, and identifying ways to strengthen our communities and their workforces. The Board has begun work to lay the foundation on a new Strategic Plan that will help focus NFMFC's efforts and address challenges encountered in previous years.

In 2022, NFMFC will celebrate its 10th anniversary. As I reflect on this significant milestone, I am very proud of NFMFC's accomplishments to date and it is hard to believe how far NFMFC has come since its inception through legislation in May of 2012. Looking ahead, we look forward to making the next ten years even more successful for the Agency.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Notarbartolo', with a stylized flourish at the end.

Carmelo Notarbartolo, General Manager
Nawiingnokiima Forest Management Corporation

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1. Background

Company Overview

NFMC is the first Ontario local forest management corporation (LFMC) established under the *Ontario Forest Tenure Modernization Act, 2011* (OFTMA). NFMC was established through the passage of Regulation 111/12 under the *OFTMA, 2011* on May 29, 2012.

NFMC's management area in 2021-22 remained static and is comprised of two forest management units (FMUs): Pic Forest and White River Forest (see Figure 1). The Nagagami Forest to the east remains outstanding from the original concept of what NFMC's management area would include. Discussions with the current Sustainable Forest License (SFL) holder of the Nagagami Forest are in the preliminary stages and NFMC will determine during the 2022-23 fiscal year what steps will be taken, if any, to move forward with the potential acquisition of the Nagagami SFL.

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 the Pic and White River Forests are carried out under the authority of approved Forest Management Plans (FMPs). These activities are subject to an Independent Forest Audit (IFA) and the audit results are available to the public for review.

Agency Mandate

As outlined within its 2017-21 Strategic Plan, 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.”



Figure 1. Map of NFMC management area as of March 31, 2022

In September 2020, NPMC received a mandate letter from the provincial government that outlined the requirements for the Crown Agency in 2021-22. Requirements are outlined in Figure 2.

1. Competitiveness, sustainability, and expenditure management.
2. Transparency and accountability.
3. Risk management.
4. Workforce management.
5. Data collection.
6. Digital delivery and customer service.
7. Sustainably managing the Pic and White River Forests, including the development and implementation of FMPs.
8. Making progress towards the acquisition of the SFL for the Nagagami FMU.
9. Continuing to work towards marketing and selling wood through negotiated sales to generate sufficient revenue to cover the Agency's activities and maintain its operating reserve.
10. Maintaining a functioning Board of directors and engage the committees outlined in the Corporation's by-law #1 and additional Board subcommittees, as required.
11. Implementing the recommendations of Agency Task Force Reviews.
12. Implementing strategic initiatives that focus on local and First Nation community economic development and create public awareness of NPMC's achievements.
13. Working with First Nation communities and MNRF on land claim matters.
14. Continuing to provide training opportunities to the Board and orientation to new Board appointees.

Figure 2. Mandate requirements for NPMC

In addition to government-wide priorities, NPMC is expected to work towards tasks that mirror the objects of the LFMC detailed in the OFTMA (see Figure 3). NPMC's progress at addressing the mandate's requirements as well as the LFMC's objects is highlighted throughout the remainder of this Annual Report.

Mission Statement

The NPMC mission statement as outlined in its 2017-21 Strategic Plan, mirrors the objects of the LFMC per Figure 3.

1. To hold forest resources licences and manage Crown forests in accordance with the Crown Forest Sustainability Act, 1994 (CFA) and to promote the sustainability of Crown forests.
2. To provide for economic development opportunities for Indigenous peoples.
3. 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.
4. To market, sell and enable access to a predictable and competitively priced supply of Crown forest resources.
5. To carry out such other objects as may be prescribed by regulation.

Figure 3. LFMC objects per the OFTMA

Environmental Policy

NFMC recognizes environmental protection as one of the Agency's primary drivers as well as a key component of sound business performance. The Agency has an established Environmental Policy (Figure 4) with an ongoing commitment made to providing quality forest products and related services in a manner that minimizes the potential impact on the environment. In addition, 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 NFMC will:

1. Integrate the consideration of environmental concerns and impacts into all Agency decision making and activities.
2. Promote environmental awareness among our employees and encourage them to work in an environmentally responsible manner.
3. Train, educate, and inform our employees about environmental issues.
4. Where required by legislation or where significant health, safety or environmental hazards exist, develop and maintain appropriate emergency and spill Standard Operations Procedures.
5. Regularly communicate our Environmental Program to clients, customers and the public and encourage them to support it.
6. Commit to the advancement of sustainable forest management practices and continuing third-party certification on NFMC management area, and
7. Strive to continually improve the Agency's environmental performance by periodically reviewing the NFMC Environmental Policy considering our current and planned future forestry activities.

Figure 4. Environmental Policy tenets

Strategic Direction

In 2017, a Board led strategic planning exercise resulted in NFMC's inaugural Strategic Plan titled "Working Together – Strategic Plan 2017-2021." The Strategic Plan established NFMC's priorities for the 2017-2021 time period. Since 2017, NFMC's staff and Board have established three programs and developed policies to support the goals of the Strategic Plan. At a high level, the Strategic Plan's areas of focus include: forests, governance, industry, and communities. In early 2022, NFMC began the process of creating a new Strategic Plan that will guide the Agency's direction for the 2022-2027 time period.

2. Agency Governance & Staffing

Corporate Governance

NFMC has a Memorandum of Understanding (MOU) with the Ministry of Natural Resources and Forestry (MNRF). Updated in April of 2021, the MOU outlines the responsibilities of the Minister, Deputy Minister, Chair of the Board, Board members, and the General Manager (GM).

The GM is accountable to the Board, via 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 of the MNRF, again via the Chair, for: the oversight and governance of the Agency, setting goals, objectives and the strategic direction for the Agency all while ensuring compliance with all applicable Acts, regulations and directives.

Board of Directors

NFMC's current Board (Table 1) includes representatives from Manitouwadge, Marathon, White River, Biigtigong Nishnaabeg First Nation, Hornepayne, Netmizaaggamig Nishnaabeg First Nation, and a member-at-large (who broadens the Board's functional knowledge base).

NFMC is attentive to individuals that could contribute to the Agency and serve as a potential Board member either representing their home community or as a member at large.

NAME	POSITION	TENURE	COMMUNITY	2021-22 REMUNERATION
Adam Brown	Vice-Chair	02/07/20 – 01/07/23	Marathon	\$ 1,700
Tina Forsyth	Director	28/06/20 – 27/06/23	White River	\$ 0
Jesse Gaudette	Director	06/08/20 – 05/08/23	Netmizaaggamig Nishnaabeg First Nation	\$ 0
Grant Goodwin	Director	30/07/20 – 29/07/23	Manitouwadge	\$ 350
Joanne Michano	Director	06/08/20 – 05/08/23	Biigtigong Nishnaabeg First Nation	\$ 0
Laird Van Damme	Chair	20/08/20 – 19/08/23	At large	\$ 7,350
Julie-Roy Ward	Director	02/05/22 – 01/05/25	Hornepayne	\$ 700

Table 1. NFMC Board membership at March 31, 2022

Biographies of Board members can be found on the NFMC webpage: <https://nfmcforestry.ca/staff/>

Board Committees

In accordance with the OFTMA, the NFMC Board of Directors has established four standing committees. The purpose of each committee is outlined in Figure 5.

Audit & Finance Committee Purpose: The Audit and Finance Committee is responsible for ensuring that appropriate controls and accountability exist within the Agency with respect to audit, finance, and areas of material risk. Chair: Laird Van Damme Members: All Board members Non-voting member: Jory Caruso	Governance Committee Purpose: The Governance Committee provides advice and recommendations on governance matters, including Board vacancies. Chair: Laird Van Damme Members: All Board members Non-voting member: Carmelo Notarbartolo
Performance Management & Human Resources Committee Purpose: The Performance Management and Human Resources Committee provides advice and recommendations on matters relating to performance management and human resources. Chair: Adam Brown Members: Laird Van Damme, Jesse Gaudette & Joanne Michano	Advisory Committees Purpose: Also, in accordance with NFMC's By-Law #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. NFMC believes the Committee will be established following the term of the current FMP Contingency Plan. Chair: To be determined Members: To be determined

Figure 5. NFMC Board committees

Agency Location

NFMC's primary office is located in Marathon, Ontario. The contact information for NFMC is:

P.O. Box 1479
14 Hemlo Drive
Marathon, ON P0T 2E0

Phone: 807-229-8118
Website: www.nfmcforestry.ca
General inquiries: contact@nfmcforestry.ca

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

Agency's General Manager

The GM, who also acts as the Chief Executive Officer, reports to the Board of Directors. The GM is responsible for the day-to-day management of NFMC including: the financial, analytical, and administrative affairs of the Agency in accordance with the Agency mandate of the Agency, the Minister's Directives, applicable government directives, accepted business and financial practices, and the MOU with the Minister.

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

Agency Staff

The organizational structure for NFMC (Figure 6) has been designed to be scalable and flexible to accommodate the needs of the Agency. NFMC maintained staffing levels in 2021-22 and does not expect significant changes in 2022-23. There may be changes if, in the future, the Nagagami Forest SFL is transferred to NFMC's management. This flexibility of staffing levels is an important tool for the GM to manage costs and operational risks associated with the current business climate in NFMC's management area.

NFMC's management team strives to make the Agency's work culture respectful, progressive, and inclusive.

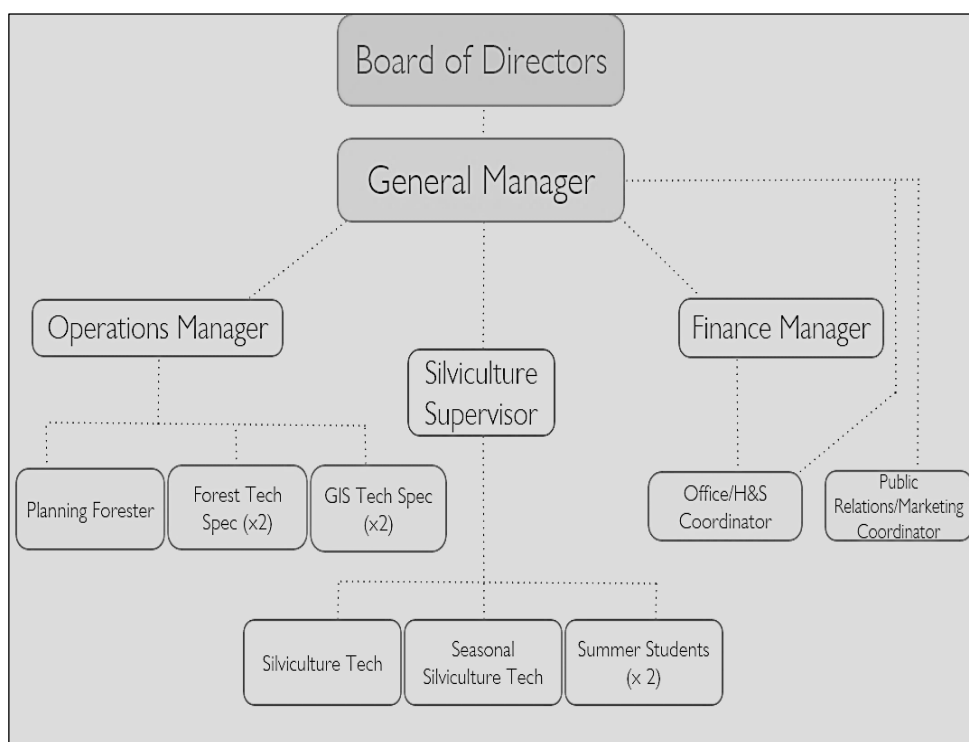


Figure 6. NFMC organizational chart at March 31, 2022

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

The management team includes the Operations Manager and the Finance Manager. The Operations Manager, with the assistance of the Planning Forester, Forest Technicians, and GIS Technical Specialists, is responsible for the oversight and implementation of the Agency's forestry operations responsibilities including: adherence to FMPs and all associated

legislation and regulations, required annual reporting is completed within proper timelines, and ensuring health and safety protocols are in place by contractors on the FMUs.

The Finance manager, who also acts as the Chief Financial Officer of the Agency, is responsible for the oversight and implementation of all the financial responsibilities, including the planning and preparation of the Annual Business Plan (ABP) and adhering to all directives applicable to the Agency.

The Silviculture Supervisor, who reports to the GM, ensures (with the assistance of Silviculture Technicians) that the NFMC forests meet the forest renewal and sustainability requirements set out by the MNRF as well as third-party certification programs such as Forest Stewardship Council (FSC®) through the planning and oversight of the renewal activities on the FMUs.

Training & Professional Development

NFMC is committed to supporting training initiatives to improve health and safety or environmental performance for its employees and stakeholders. Due to the impacts of the pandemic in 2021-22 NFMC's ability to facilitate said training was significantly hindered. Despite pandemic related restrictions NFMC was able to provide training related to forestry, health and safety, and professional development. NFMC plans to facilitate more training opportunities in 2022-23 as pandemic restrictions ease.

Agency Health & Safety

NFMC's management and its Board of Directors are committed to the health and safety of its employees and all who are involved in forestry and silviculture operations on its management area. As such health and safety is the NFMC's primary operational priority. NFMC continuously strives to create awareness of safety risks found specifically in forestry operations -especially the risks of driving on forest access roads.

NFMC is also committed to having an accident-free workplace through its endorsement and effective administration of its Workplace Safety North (WSN) certified Health and Safety Program (H&SP). NFMC's H&SP was re-certified by WSN in June 2021. The comprehensive H&SP is tailored to adhere to provincial safety legislation and the Occupational Health and Safety Act (2018). NFMC considers its H&SP an evergreen document and it is continually updated to ensure continued employee and contractor safety.

To further encourage safe work practices in forestry, NFMC has established a partnership with WSN to provide complementary health and safety training courses to the various stakeholders/contractors operating within its management area.

3. Agency Program Activities

The program activities of NFMC are guided by the conditions of the SFLs it holds, consistent with the requirements of the CFSA and the OFTMA. NFMC has four forestry program areas:

- i. Forest management planning
- ii. Forest operations (including harvesting, renewal programs, roads, and compliance)
- iii. Economic development initiatives
- iv. Timber sales and marketing

In 2021-22, 621,000 m³ of wood were delivered from the Pic and White River Forests to receiving mills- summarized in Figure 7. This is a decrease from the previous year when NFMC delivered 688,000 m³. A number of factors played a role in this decrease, including shortages in contractor capacity and trucking resources. These factors are concerns that NFMC will look to assist with through initiatives over the next few years.

NFMC's primary customers have not changed from prior years. Customers consist of: AV Terrace Bay Inc., Lecours Lumber Co., Levesque Plywood Limited, White River Forest Products, Hornepayne Lumber LP and Nakina Lumber Inc (Table 2).

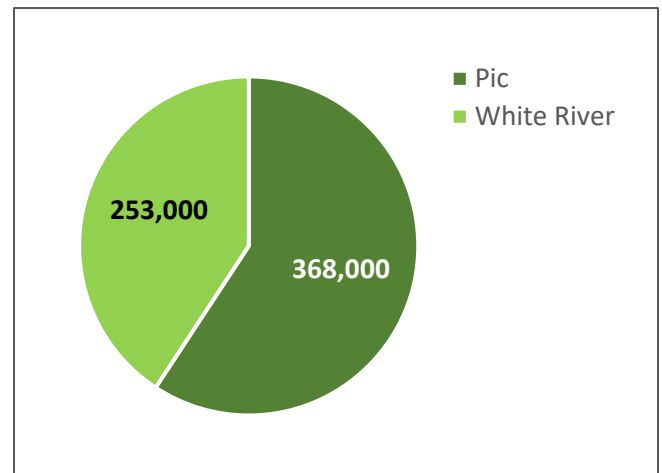


Figure 7. NFMC harvest levels by SFL in 2021-22 (in m³)

MILL	LOCATION	PRODUCT
AV Terrace Bay	Terrace Bay	Pulp/biomass
Hornepayne Lumber LP	Hornepayne	SPF lumber
Lecours Lumber Co. Ltd.	Calstock	SPF lumber
Levesque Plywood Ltd.	Hearst	Poplar veneer
Nakina Lumber	Nakina	SPF lumber
White River Forest Products Ltd.	White River	SPF lumber

Table 2. NFMC primary customers (locations and products)

The majority of wood was delivered by four primary contractors on the FMUs: Manitouwadge Contracting Ltd., Lecours Lumber, White River Forest Products and AV Terrace Bay Inc. NFMC continues to explore strategic initiatives to increase contractor capacity on the forest, specifically through arrangements that support local and First Nation economic development.

Forest Certification

NFMC maintained its FSC® certification on the White River and Pic Forests in 2021-22. NFMC's FSC® certification of the forests under its management is considered a major accomplishment that demonstrates its commitment to manage its forests sustainably, support its industry partners, and help facilitate local community and First Nation economic development. NFMC staff work hard to ensure the annual surveillance audits are successfully completed, 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 for the audit teams.

Forest Product Markets

NFMC supplies four main forest products: lumber, panel, pulp and paper, and forest biomass. While markets fell slightly from the historical record highs seen during the pandemic, demand remained stronger than the average years pre-Covid. Unfortunately, the strong markets did not result in a great harvest year on the NFMC management area mainly due to issues identified earlier in this section.

In addition to the human resource capacity shortages, local mills encountered production issues which were not anticipated; this unfortunately occurred while markets were at an all-time high.

The upcoming year's projections may vary greatly due to significant inflation increases and the subsequent response from financial institutions and governments. NFMC must prepare for another uncertain year, with little historical precedence in these circumstances.

Community Engagement & Supporting Local Communities

During the pandemic, NFMC was limited in its engagement with local communities and stakeholders. However, towards the end of 2021-22 NFMC was able to increase community outreach and face-to-face meetings with stakeholders. Thanks to these developments, using its available Programs, NFMC was able to donate over \$10K toward local community events, award \$32K in scholarships to college and university students from the local management area and approve over \$330K in strategic initiatives assisting local businesses in the forestry sector (including First Nation owned businesses).

For 2022-23, NFMC plans to continue the momentum created by the recovery from the pandemic, in addition to addressing needs of the local forest industry and hope to improve on the community engagements and investments highlighted above.

Another area where staff time and resources were invested in 2021-22 was the NFMC's social media presence as a means for the Agency to reach out to the communities and residents on its management area. As of March 2022, NFMC has created social media accounts on Twitter, Facebook, and Instagram. These accounts are used to create awareness of NFMC activities, positive impacts of forestry within the management area, and advertising staffing vacancies within the Agency. In addition, NFMC completely overhauled its webpage in 2021 to make it more user friendly and highlighted important sections at a glance for users.

Contributions to the Local Economy

NFMC's mandate includes providing economic development opportunities for local communities and First Nations. NFMC developed a Procurement Policy with this in mind. NFMC sought, where possible, to source supplies and services from First Nations, local and regional vendors. NFMC directly contributed over \$1.5 million to the local and regional economy.

NFMC purchased goods and services from local First Nations valued over \$1 million including its support through strategic initiatives. NFMC purchased another \$500K from vendors within or surrounding its management area located in Municipalities.

In addition to purchases listed, NFMC paid almost \$1.2 million in wages and salaries that were spent in local communities (Figure 8).

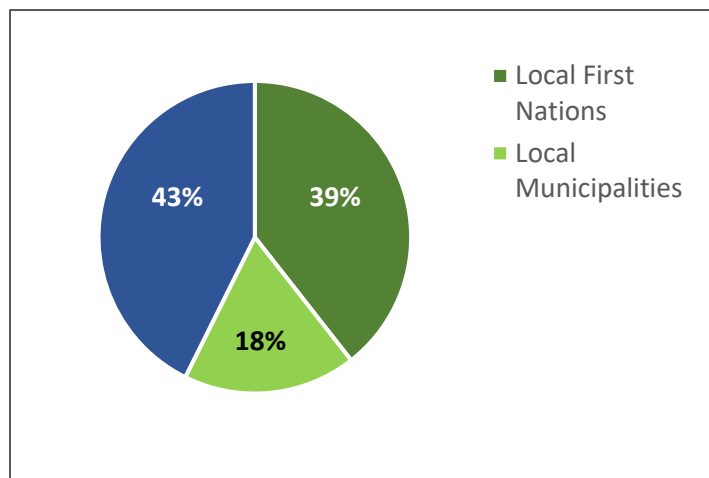


Figure 8. Breakdown of local spending in 2021-22

4. Analysis of Operational Performance

Performance Measures

NFMC 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). NFMC's performance measures and achievements are outlined below and are consistent with ones outlined in the Agency's ABP.

- i. World class forest management company
 - Maintained third-party FSC® Certification on the White River and Pic Forests.
 - Completed renewal programs on both forests consistent with the expectations of the Forest Management Plans and Annual Work Schedules.
 - Partnered with Canadian Company on the testing of semi-autonomous solutions for potential future forestry uptake; the uptake will be dependant on the success of the pilot project and future legislative changes.
- ii. Financially Self-Sufficient
 - Cash on hand (including reserves) on March 31, 2022 is over \$25 million.
 - NFMC's operating reserve is set at \$11.5 million as of March 31, 2022 consisting of funds that are segregated.
- iii. Extending scope of usage
 - Commitment volumes made available but not fully utilized due to operational factors and conditions facing certain customers.
- iv. Meeting governance requirements
 - Timely submission for all Agency requirements to MNRF throughout the fiscal year.
 - Posted required reports to its website; including travel, meal and hospitality expenses, MOU with Minister and other reports for public disclosure.
 - Governance training provided to Board members when required or requested.
- v. Building new local forest related industry
 - Provided SIP assistance to First Nation businesses working in the harvesting, road building and maintenance sectors. This will assist with the long-term goal of increasing capacity within the industry and maximizing the value of Crown resources.
 - Awarded SIP program assistance to PRT Growing Services Ltd. for the rehabilitation of a cold storage unit in the Township of Manitouwadge, allowing for a more efficient and sustainable tree plant program while creating local employment.

- Working on a tool to identify the unused resources on the management area to provide a potential future investor, the initial information required to determine the ideal location for infrastructure and potential costs to bring product from forest to manufacturing plant.

vi. Establishing a new baseline for First Nation engagement

- Moved forward on strategic initiatives related to road maintenance and harvesting capacity with a local First Nations. Provided over \$1 million in payments to Indigenous contractors for services or in direct support.
- NFMC Board maintains representatives of both Netmizaaggamig Nishnaabeg First Nation and Biigtigong Nishnaabeg First Nation.
- Began free, prior and informed consent (FPIC) agreement meetings with Biigtigong Nishnaabeg First Nation and continue to progress through these discussions.

vii. Engaging the community in forestry

- Board included representatives from Marathon, Manitouwadge, Hornepayne, and White River as well as at large members.
- Staff attended community educational events and tradeshow across the region including Marathon, Terrace Bay, Longlac, and Thunder Bay.
- NFMC awarded 12 scholarships, for a total value of \$32K 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, TBNewswatch and Northern Ontario Business.
- NFMC maintains active social media accounts as well as its website and uses these tools as our means of regular communication with local residents including information related to NFMC's operations, raising awareness of the positive impacts of forestry in our region and employment opportunities within the Agency.
- 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.

Operational Performance

NFMC's core business and primary performance measures consist of harvest volume, renewal programs and financial results. During the 2021-22 fiscal year, the merchantable volume harvested on the NFMC management area was 621,000 m³. This volume was below the budget of 832,000 m³. While demand remained strong and prices for lumber and NBSK were also favourable, our local industry struggled with shortages in human resource capacity throughout the supply chain, including at the mills, in the harvesting sector as well as the trucking power. In addition, two of our main customers suffered unexpected operational performance issues throughout the year.

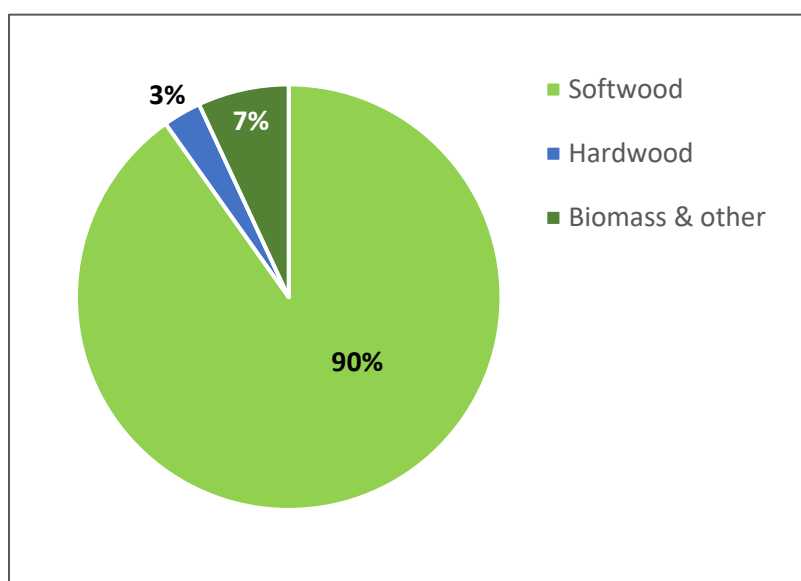


Figure 9. Volume distribution by species type 2021-22

Most of NFMC's delivered volume is softwood, which accounted for 90 percent of deliveries (Figure 9). Softwood demand has remained strong over the past few years and is projected to continue as mills require fibre from NFMC's FMUs to remain operational at ideal production levels. Identifying markets for biomass and merchantable hardwood remains a challenge within our management area and there is hope recent interest shown by new investors may spark changes on this front in future years.

NFMC provides fibre to mills from Terrace Bay to White River to Hearst. There are four softwood sawmills, one softwood pulp mill, one hardwood veneer facility and two plants that use biomass in or adjacent to its management area (Table 3).

MILL	LOCATION	PRODUCT
AV Terrace Bay	Terrace Bay	Pulp/Biomass
Hornepayne Lumber LP	Hornepayne	SPF Lumber
Lecours Lumber Co. Ltd.	Calstock	SPF Lumber
Levesque Plywood Ltd.	Hearst	Poplar Veneer
Nakina Lumber	Nakina	SPF Lumber
White River Forest Products Ltd.	White River	SPF Lumber

Table 3. NFMC primary customers (locations and products)

NFMC's primary customers were AV Terrace Bay and White River Forest Products Ltd which together accounted for approximately 75 percent of delivered volume from NFMC's management area (Figure 10).

NFMC's objective to grow forest operations activities to better achieve its mandate requires implementation of key operational strategies including the development of new/additional forest access roads and supporting/attracting logging contractors. These strategies represent significant investment of human and financial capital and are at various stages of development.

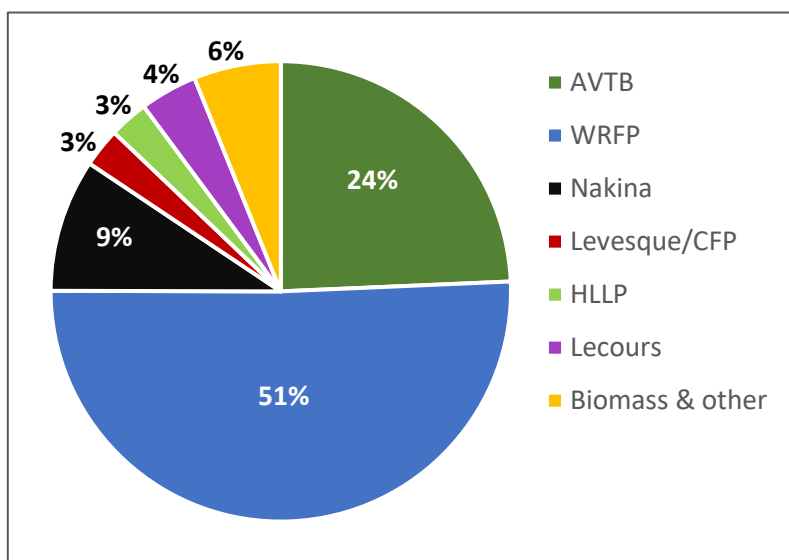


Figure 10. Volume distribution by destination 2021-22

NFMC has continued to maintain the Caramat-Manitouwadge "Industrial Road" for the Ministry of Transport Ontario (MTO). NFMC utilizes a local First Nation contractor to maintain the Road thus providing an economic opportunity to the First Nation's community. The NFMC's webpage regularly posts updates on the condition of the Industrial Road to advise the public of travel conditions. The updates also identify areas of the Road that may require maintenance.

Forest management activities were carried out with support from qualified service providers to facilitate ongoing forest operations including any required amendments to FMPs and revisions to AWSs.

NFMC's Silviculture Program spending from the Forest Renewal Trust (FRT) for 2021-22 was almost \$3.27 million. The Pic Forest's expenditures were \$1.99 million and the White River Forest's expenditures were \$1.28 million. NFMC continues to manage its Silviculture Program with the objective of achieving improved results and cost control through the timely treatment of harvest blocks, Free to Grow surveys, etc. During 2021-22, NFMC maintained surpluses in its renewal trust account on both the Pic and White River Forests. Renewal rates remained unchanged during the fiscal year. The NFMC's 2021-22 Silviculture Program included the activities in Table 4.

PROGRAM	QUANTITY
Planting	5,.7 million trees
Stock Production	5.27 million trees
Mechanical Site Preparation	1,344 hectares
Debris Management	700 hectares
Chemical Site Preparation	326 hectares
Tending	2,936 hectares

Table 4. 2021-22 Silviculture Program activities

5. Analysis of Financial Performance

The Agency appointed an independent auditor to review the accounts and financial transactions of the Agency for 2021-22 (see Section 8). NFMC is a Crown Agency and operates on a cost recovery basis and is exempt from income taxes under the federal *Income Tax Act*.

NFMC recorded a net income of \$6.6 million in 2021-22 compared to net income for 2020-21 of \$5.9 million. The difference is primarily due to the receipt of residual charges on deliveries of sawlogs from the White River and Pic Forests. The forest products market was strong last year and all area mills were operating at year end.

Balance Sheet

NFMC increased its cash position by \$8.6 million to \$25.9 million during the 2021-22 audit period. The balance of accounts receivable at the end of the audit period was \$3.15 million, including long-term receivables. The balance is comprised of \$2.7 million invoiced before March 31, 2022 for stumpage fees, \$311k from the MTO for roads reimbursements, \$43k from the FRT for silviculture reimbursements, and \$103k in trade receivables. Trade receivables include administration, permit fees receivable from various mills, and overlapping agreement fees. NFMC also accrued \$1.79 million at year-end which includes \$1.67 million for deliveries before March 31, 2022 but not invoiced in the MNRF's ITREES system until April 2022.

During 2021-22 and subsequent to year-end, NFMC made significant strides in collecting arrears on stumpage fees. This resulted in NFMC presenting all receivables as current in 2021-22 compared to \$400k presented as long term in 2020-21.

During the year, NFMC made some minor additions to its property, plant and equipment. The Agency purchased and installed \$4K in shelving for storage, in addition to computers with a value of \$2.6k. Property, plant, and equipment are recorded at cost less accumulated amortization.

Liabilities at year-end were \$2.47 million and are primarily related to the accrued Crown dues including deliveries in January-March 2022 but not billed until after the year-end, and the province's Forest Roads Funding Program (FRFP) funds receivable by NFMC and repayable to the industry as part of the Beneficiary Flow-Through Agreement.

Since NFMC was issued the SFL for the Pic Forest in 2017-18 the Agency has increased its operating reserve to \$11.5 million which was higher than the original target of \$9 million set by the Board of Directors for March 31, 2022. Given the financial success industry and NFMC had in 2021-22, the Board

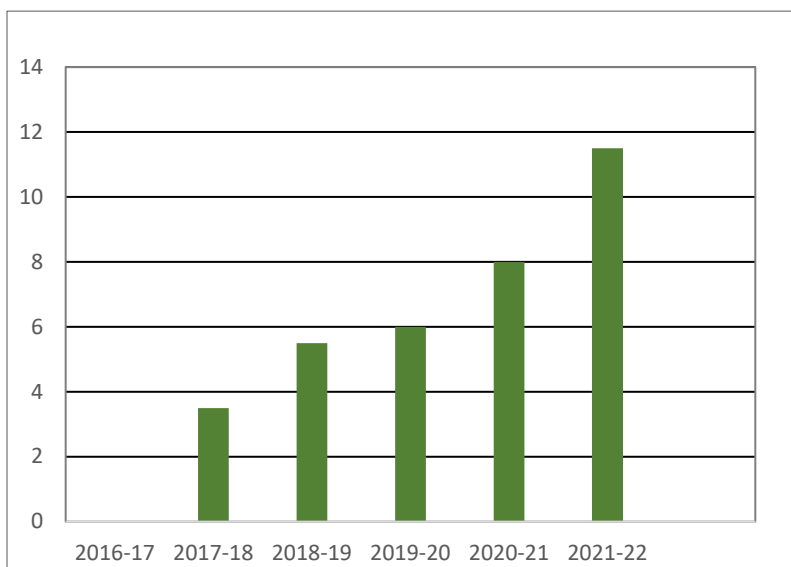


Table 5. Operating reserve (\$ million) 2016-17 to 2021-22

agreed to increase the operating reserve to \$11.5 million (Table 5). This is an increase of \$3.5 million from 2021-22. The reserve provides NFMC’s management with funds to cover approximately five years of regular operations.

Revenues

Revenues from management fees and forest renewal charges are recognized when wood is delivered. Revenues from the FRFP were recognized when the invoice was submitted for reimbursement.

The revenue for the period totalled almost \$12.5 million, as shown in Table 6 (separated by category). Operating revenues from administration and similar fees for the audit period were almost \$673K. Also, in 2021-22, NFMC collected residual stumpage charges of \$6.4 million as the price for 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 \$8.5 million. Funds to maintain and improve forest access roads during the audit period include just under \$2.7 million from the FRFP and \$374K 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 FMU to the other and it is also used by local residents for travel and recreation purposes.

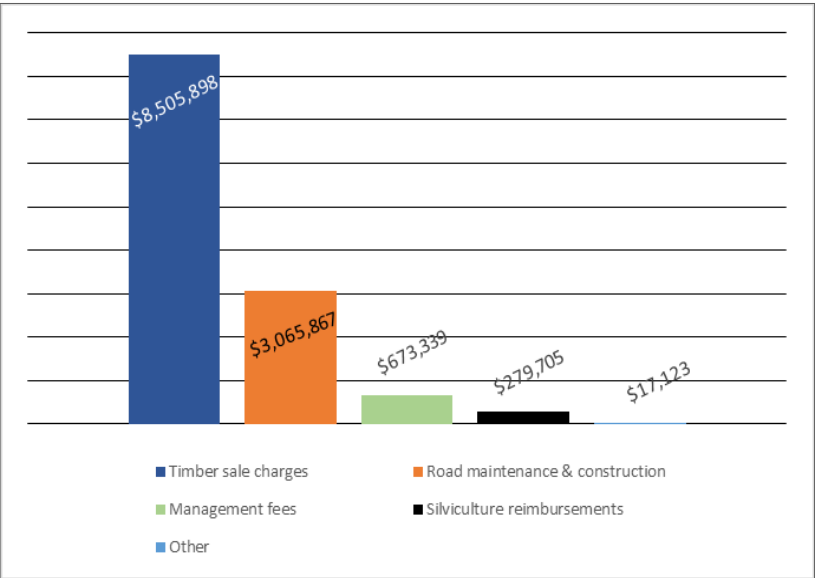


Table 6. Revenue by source 2021-22

The revenue in 2021-22 was higher than the previous year (Table 7) largely due to the increase of pulp and paper prices. However, the primary reason for the increase in revenue, is the amount of residual fees received in 2021-22 was higher as the price of lumber reached the highest levels recorded, over \$1,500 per thousand board feet. The residual fees are expected to continue into 2022-23 as the global economy navigates pressures due to inflation.

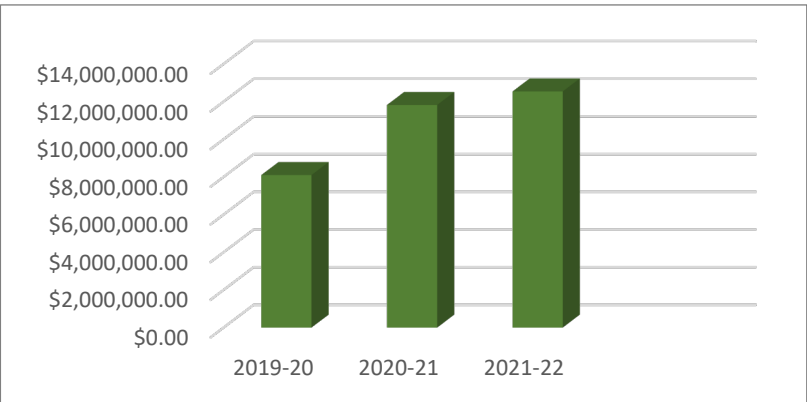


Table 7. NFMC Revenue 2019-20 to 2021-22

Expenditures

Wages and benefit costs incurred during the audit period totalled over \$1.2 million; an increase from the prior year due to consistent staffing levels. NFMC saw a corresponding decrease in the use of contractors that provide forest management, GIS, and supervision services. NFMC incurred just over \$164K in staff vehicle, mileage, and travel expenses during the year.

The Board of Director's expenses including remuneration and expenses totalled \$10,641, a slight increase from the previous year.

Additional expenditures included costs of \$65,600 to maintain FSC® certification for the Pic and White River Forests.

The largest expenditures during the period were for road construction and maintenance costs totalling over \$3 million, most of which was recovered during the year from the FRFP or the MTO Industrial Road Agreement. NFMC also began to examine and plan for future capital expenditures to improve access to new harvest areas and replace some of the aging infrastructure on the FMUs.

NFMC incurred professional fees of \$108K for the preparation of audited financial statements and legal and accounting advice to support various agreements and Agency decisions. As a Crown Agency, NFMC is subject to numerous rules and regulations not applicable to other SFL holders. As a result, what may otherwise be routine management decisions are subject to a thorough review by NFMC's lawyers and auditors. Expenses by type are shown in Figure 11.

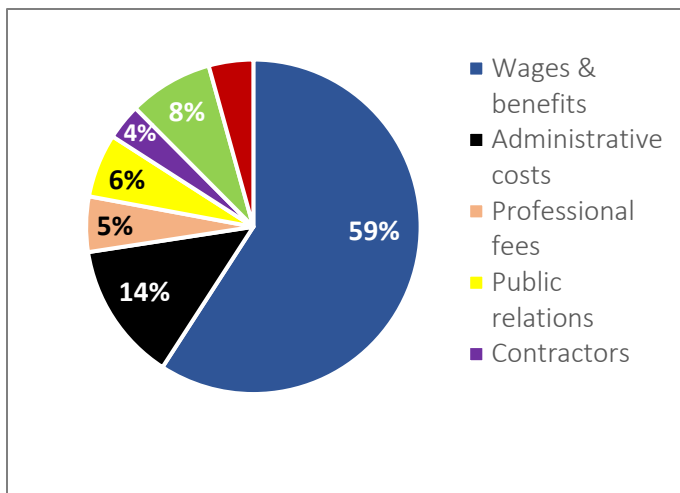


Figure 11. Expenses by type for 2021-22 (excluding Strategic Initiatives, FRFP, and Forest Renewal)

6. Risk Events & Mitigation Strategies

As a Crown Agency, there is a need to regularly identify, assess, and manage any risks that may impact NPMC, the MNRF and/or government objectives. To do this, NPMC follows the risk assessment and risk management process outlined in the Guide to the Risk-Based Approach. Annually, NPMC completes its Risk Assessment Report and Risk Management Plan which are then submitted to the MNRF's Corporate Management Information Division.

NPMC discloses its risks on a quarterly basis. During 2021-22, no significant risks were identified for the Agency.

NPMC has established a Strategic Initiatives Program with the intent of assisting new start-ups or increasing capacity by current businesses within the management area. The goal of the Program is to promote local investment, provide employment and economic development opportunities for local First Nations and municipalities while strengthening the industry and in turn, NPMC's financial outlook.

The mandate of NPMC requires operating as a self-financing business, which included establishing an operating reserve to ensure continued sustainability in response to variations in economic cycles. NPMC has maximized its operating reserve to equal approximately five years of operating costs. In addition, NPMC sets aside money in its budget to address unforeseen events as part of its Unforeseen Events Policy.

NPMC's unique mandate requires specialized administrative functions including a forest products business-focused financial department and systems support. NPMC's workforce is highly skilled and mobile in today's economy. NPMC experiences high rates of employee turnover as skilled employees leave for positions which may offer better pay and benefits, to live in bigger city centers, or for family related reasons. Skilled and experienced employees are critical to NPMC business continuity and the delivery of required programs and support functions. The risk that NPMC faces is not being able to attract (and retain qualified and motivated employees) leading to performance issues, business, and service continuity risks.

NPMC 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 NPMC are the consequences of the economic shutdown. The forest sector in northern Ontario is highly dependent upon the U.S. housing market as the primary driver of demand. The U.S. housing market began 2021 strong and is expected to rise slightly in 2022. Although lumber prices have fallen from their record highs, they are still expected to remain strong for much of 2022. The outlook for pulp is not as optimistic as prices are expected to slip while China recovers from its economic challenges. High inflation and increases in interest rates are expected to create substantial uncertainty in the wider economy, which raises concerns for NPMC.

7. The Path Ahead

NFMC recently completed the final year of its five-year Strategic Plan covering the period of 2017-2021. While many goals and successes were realized during this period, it is now time to look ahead to the preparation and implementation of a new five-year Strategic Plan that will take the Agency into 2027.

The 2017-21 Strategic Plan was created while the NFMC was in its infancy with many of the Plan's objectives reflecting the Agency's early stages of development. The Board of Directors is now looking forward to the 2022-2027 time period and how the Agency can take advantage of: NFMC's successes to-date, use its resources to provide local economic development opportunities, identify new markets for fibre, partnering on research and development initiatives within the forestry sector, and assisting local First Nation communities through agreements and commitments that reflect their inherent rights on the management area.

As has always been stated in previous Annual Reports, NFMC maintains that its staff are the Agency's greatest asset. NFMC recognizes the difficulties of attracting staff to Marathon and other small communities in NFMC's management area especially given the changing nature of work and the expectations of the millennial generation. The Agency continues to create an environment that encourages each staff member to achieve their full potential by encouraging professional development and growth.

NFMC will look to broaden the market for its products by working with new entrants. Attracting new investments means new employment opportunities and a priority for NFMC will be to find additional markets for under-utilized species such as poplar and birch. NFMC will work to encourage new entrants to the forestry industry and support initiatives that make sense for the communities, mills, forest sustainability, and the environment.

8. Audited Financial Statements

**Nawiinginokiima Forest
Management Corporation
Financial Statements
For the year ended March 31, 2022**

Contents

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Independent Auditor's Report

**To the Board of Directors of
Nawiingnokiima Forest Management Corporation**

Opinion

We have audited the financial statements of Nawiingnokiima Forest Management Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2022, 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, 2022, 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.

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, 2021 has been restated. Our opinion is not modified in respect of this matter.

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.

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
July 13, 2022

Nawiingnokiima Forest Management Corporation

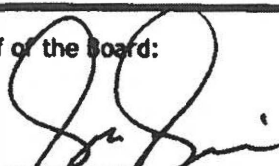
Statement of Financial Position

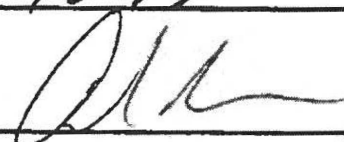
March 31	2022	2021 As Restated (Note 2)
Assets		
Current		
Cash	\$ 25,943,166	\$ 17,390,012
Accounts receivable (Note 4)	3,157,388	4,471,457
Prepaid expenses	61,725	100,000
	<u>29,162,279</u>	<u>21,961,469</u>
Long term receivables (Note 4)	-	406,082
Roadside inventory (Note 5)	578,573	731,045
Property, plant and equipment (Note 6)	119,041	129,394
	<u>\$ 29,859,893</u>	<u>\$ 23,227,990</u>

Liabilities and Net Assets

Current		
Accounts payable and accrued liabilities (Note 7)	\$ 2,468,738	\$ 2,426,368
Net assets		
Unrestricted	15,891,155	12,801,622
Operating reserve (Note 8)	11,500,000	8,000,000
	<u>27,391,155</u>	<u>20,801,622</u>
	<u>\$ 29,859,893</u>	<u>\$ 23,227,990</u>

On behalf of the Board:


 _____ Director


 _____ Director

The accompanying notes are an integral part of these financial statements.

Nawiinginokiima Forest Management Corporation

Statement of Operations and Accumulated Net Assets

For the year ended March 31	2022	2021 As Restated (Note 2)
Revenue		
Management fees	\$ 673,339	\$ 691,752
Forest renewal activity	279,705	392,282
Forest access roads	3,065,867	3,162,267
Timber sales charges	8,505,898	7,574,825
Other	17,123	605
	<u>12,541,932</u>	<u>11,821,731</u>
Expenses		
Amortization	17,016	15,947
Bank and service fees	45,852	13,231
Bad debt	59,012	44,879
Board of Directors activities	12,381	9,906
Strategic initiatives	786,291	941,246
Contract services	4,208	5,300
Forest certification	65,610	55,546
Forest management services	79,612	227,538
Human resources development	23,332	6,142
Insurance	12,501	16,757
Miscellaneous	24	1,993
Office	103,458	104,691
Professional fees	107,639	58,785
Public access road maintenance	3,073,384	3,167,307
Public relations	118,083	41,329
Rent and lease	89,465	63,771
Travel and automotive	163,863	119,225
Wages and benefits	1,190,668	1,044,127
	<u>5,952,399</u>	<u>5,937,720</u>
Excess of revenue over expenses before the undernoted	6,589,533	5,884,011
Loss on disposal of property, plant and equipment	-	(8,000)
	<u>6,589,533</u>	<u>5,876,011</u>
Excess of revenue over expenses	6,589,533	5,876,011
Net assets - unrestricted, beginning of the year	12,801,622	9,525,611
Transfer to operating reserve (Note 8)	(3,500,000)	(2,600,000)
	<u>\$ 15,891,155</u>	<u>\$ 12,801,622</u>
Net assets - internally restricted, beginning of the year	\$ 8,000,000	\$ 5,400,000
Transfer to operating reserve (Note 8)	3,500,000	2,600,000
	<u>\$ 11,500,000</u>	<u>\$ 8,000,000</u>

The accompanying notes are an integral part of these financial statements.

Nawiinginokiima Forest Management Corporation

Statement of Cash Flows

For the year ended March 31	2022	2021 As Restated (Note 2)
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 6,589,533	\$ 5,876,011
Items not involving cash:		
Amortization	17,016	15,947
Loss on disposal of property, plant and equipment	-	8,000
	<u>6,606,549</u>	<u>5,899,958</u>
Change in non-cash working capital items:		
Accounts receivable	1,314,069	179,223
Prepaid expenses	38,275	11,379
Accounts payable and accrued liabilities	42,370	281,208
	<u>8,001,263</u>	<u>6,371,768</u>
Cash used in investing activities		
Repayment of long term receivables	406,082	1,003,682
Decrease in long-term prepaid expenses	-	100,000
Decrease in roadside inventory	152,472	168,955
	<u>558,554</u>	<u>1,272,637</u>
Cash used in capital activities		
Purchase of property, plant and equipment	(6,663)	(2,841)
	<u>8,553,154</u>	<u>7,641,564</u>
Increase in cash during the year	17,390,012	9,748,448
Cash, beginning of year	17,390,012	9,748,448
Cash, end of year	\$25,943,166	\$ 17,390,012

The accompanying notes are an integral part of these financial statements.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

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: none;"> <tr> <td style="width: 70%;">Computer equipment</td><td style="text-align: right;">- 3 years</td></tr> <tr> <td>Leasehold Improvements</td><td style="text-align: right;">- 10 years</td></tr> </table>	Computer equipment	- 3 years	Leasehold Improvements	- 10 years
Computer equipment	- 3 years				
Leasehold Improvements	- 10 years				

Nawiinginiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

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, 2022

2. Prior Period Adjustment

During the current year, the Corporation determined that wages and benefits expenses were incurred that had not been recognized in the prior years' financial statements. As a result of the error, opening net assets, wages and benefits, accounts payable and accrued liabilities 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
Trade payables	\$ 443,643	\$ 153,131	\$ 596,774
Wages and benefits	1,019,711	24,416	1,044,127
Net assets - unrestricted, beginning of the year	9,654,326	(128,715)	9,525,611
Nets assets - unrestricted, end of year	12,954,753	(153,131)	12,801,622

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.

Nawiinginiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

4. Accounts Receivables

	2022	2021
Forest Renewal Trust	\$ 42,683	\$ -
Roads program	311,291	161,520
Stumpage fees	2,691,134	4,181,565
Trade	117,280	584,333
	3,162,388	4,927,418
Less: long term portion	-	(406,082)
Less: allowance for doubtful accounts	(5,000)	(49,879)
	\$ 3,157,388	\$ 4,471,457

5. Roadside Inventory

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

The Corporation was committed to provide advances to B&M Hauling Ltd to a maximum amount of \$900,000 for roadside inventory. The advance was secured by wood processed at roadside or delivered to mills and a general security agreement covering all assets of B&M Hauling Ltd.

During the year B&M Hauling ceased operations; effective January 2022, a new contractor has taken on the harvest capacity lost on the forest due to B&M Hauling Ltd. ceasing operations. The contractor has temporarily assumed the roadside inventory liability including the repayment plan. Subsequent to year-end, NFMC and the new contractor entered into an agreement for repayment of the road side inventory. Repayment will be made at \$1 per cubic meter for deliveries by the contractor to mills on forests which NFMC is the SFL holder. The balance owing as of March 31, 2022 was \$578,573 (\$731,045 - 2021).

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

6. Property, Plant and Equipment

	2022		2021	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 67,167	\$ 67,167	\$ 67,167	\$ 67,167
Leasehold improvements	154,064	37,703	150,000	22,500
Computer software	49,215	49,215	49,215	49,215
Computer equipment	46,646	43,966	44,047	42,153
	\$ 317,092	\$ 198,051	\$ 310,429	\$ 181,035
Net book value		\$ 119,041		\$ 129,394

7. Accounts Payable

	2022	2021
Trade	\$ 382,363	\$ 596,774
HST payable	9,946	177,413
Roads	1,707,655	804,952
Stumpage fees	269,180	817,233
Wages	99,594	29,996
	\$ 2,468,738	\$ 2,426,368

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.

During the year, the Ministry approved a transfer to the reserve fund of \$3,500,000. The Board formally approved this transfer in April 2022.

	2022	2021
Balance, beginning and end of year	\$ 8,000,000	\$ 5,400,000
Transfer from unrestricted net assets	3,500,000	2,600,000
Balance, end of year	\$ 11,500,000	\$ 8,000,000

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

9. Remuneration

Total remuneration of the Board members of the Corporation was approximately \$9,800 (\$9,230 - 2021) during the year.

10. Commitments

During the 2020 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.

During a previous year, NFMC entered into a sustainable forest licence agreement with White River Forest Products Limited Partnership, which includes a commitment to invest in road infrastructure. NFMC agreed to provide a financial investment of up to \$1,250,000 over a five-year period, beginning in 2021. During the year ended March 31, 2022, \$102,410 was paid by NFMC. The remaining payments are expected to be paid as follows;

2023	200,000
2024	150,000
	<u>\$ 350,000</u>

During a previous year, NFMC entered into a memorandum of understanding with a third party 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. As at March 31, 2022, NFMC has incurred approximately \$269,000 related to the project.

NFMC is legally committed to make wood available, through crown commitments and direct business arrangements, to mills within and surrounding the management area. NFMC has an agreement in place with the mills to ensure that management operations are revenue neutral, where an annual reconciliation is completed to recover any deficit or return a surplus.

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.

Nawiinginiima Forest Management Corporation Notes to Financial Statements

March 31, 2022

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

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 \$982,244 (\$3,229,534 - 2021), 31 to 60 days \$34,673 (\$164,022 - 2021), 61 to 90 days \$311,340 (\$89,566 - 2021), and over 90 days \$5,352 (\$1,391,830 - 2021).

Approximately 73% (53% - 2021) of NFMC's total revenues for the year and 71% (91% - 2021) 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.

12. Comparative Figures

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