

Nawiinginokiima Forest Management Corporation

2023-24 Annual Report



Nawiinginokiima Forest
Management Corporation

Chair's Message

As I personally progressed into my third year as Chair of the Nawiinginokiima Forest Management Corporation (NFMC), we encountered new and unexpected challenges that have caused the Board to switch focus and find opportunities to help revitalize the forestry sector in our region.

The industry in our region has struggled over the past couple of years due to market conditions, culminating with the pulp mill in Terrace Bay announcing its temporarily closure in late 2023. As a Board, we took on this challenge through the completion of our 2024-2029 Strategic Plan. Within the plan, we made sure to provide management with the commitment and the tools required to try and help the local forest industry strengthen and diversify. We are proud of our final version of the Strategic Plan, including the support it received from local First Nations, and we look forward to its implementation and seeing the results it will bring.

We kept continuity on our Board throughout the year as all seven of our members have remained serving on the NFMC Board. This helped us concentrate on the challenges we have been facing and brainstorm as a group, resulting in locally created solutions. Having representatives on the Board from the First Nation Communities of Biigtigong Nishnaabeg and Netmizaaggamig Nishnaabeg, as well as the Municipalities of Marathon, Manitouwadge, White River and Hornepayne, has been a very important strength of the Board that has guided NFMC through these challenging times.

In conclusion, I want to recognize our staff at NFMC and their hard work and commitment to helping the Board understand the issues, challenges, and opportunities we face. As a Board, we have a vision and direction we want to achieve, but our staff are the hard workers who enable us to 'think big'. Yes, we have had another challenging year, but mixed in those challenges, are many successes and we really appreciate our NFMC team for this.

Respectfully,



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



**Nawiinginokiima Forest
Management Corporation**

General Manager's Message

The 2023-24 fiscal year brought new and unexpected challenges for the Nawiinginokiima Forest Management Corporation (NFMC). The outcome of the temporary closure of the Terrace Bay facility affected NFMC by having much lower than expected harvest levels and revenues. While challenging times also bring in new opportunities, the affects of this event will negatively affect NFMC well into the next fiscal year.

From a financial perspective, NFMC had a small profit of \$325K for the year. The revenue trend over the past couple of years is certainly concerning, but our cash flow remains very positive due to historical accumulation of net assets over past years. Our losses were minimized thanks to our efforts to lower expenditures during the fiscal year as well as increase our investment income in large part due to available high interest rates on low-risk investments.

From a Silviculture perspective, we ran another successful program which including the planting of 6.5 million trees. Our Strategic Initiatives, Scholarships and Sponsorship Programs provided great results during the fiscal year as NFMC invested just under \$800k in our communities and forest industry.

In conclusion, the 2023-24 fiscal year was difficult NFMC, our Harvest levels and revenues fell far short from expectations and the closure of the Terrace Bay mill will take time to overcome. The Board completed the new Strategic Plan which will help focus NFMC's efforts and address our current and future challenges while embracing new opportunities.

Our staff continues to step up to the challenges and they remain resilient when facing adversity. As a team, we will strive to achieve the direction and vision of the new Strategic Plan, which in turn, should help NFMC address its current operational challenges and create some positive results leading into 2024-25. We have a strong Board of Directors, well in-tune with the trials and opportunities that present NFMC today, and are committed to find long-term solutions that will make NFMC thrive.

Sincerely,



Carmelo Notarbartolo, General Manager
Nawiinginokiima Forest Management Corporation



Nawiinginokiima Forest
Management Corporation

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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 2023-24 remained static and is comprised of two forest management units (FMUs): Pic Forest and White River Forest (see Figure 1). While the original concept of the NFMC included the Nagagami forest, the Board has decided to not pursue the license for that forest and therefore changes to our management responsibilities are not expected for the near future.

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.

Letter of Direction

As outlined within its 2024-29 Strategic Plan, NFMC will strive to be recognized as a leader in sustainable forest management by implementing its vision to "be recognized as a leading steward of our forests, fostering a sustainable and harmonious coexistence between people and nature."

In September 2022 NFMC received a Letter of Direction from the provincial government that outlined the requirements for the Crown Agency in 2023-24. Requirements are outlined in Figure 2 below.



Figure 1. Map of NFMC management area as of March 31, 2024

1. Competitiveness, sustainability, and expenditure management.
2. Transparency and accountability.
3. Risk management.
4. Workforce management.
5. Diversity and inclusion.
6. Data collection.
7. Digital delivery and customer service.
8. Sustainably managing the Pic and White River Forests, including the development and implementation of Forest Management Plans.
9. Bring resolution towards the acquisition of the Sustainable Forest Licence for the Nagagami Forest Management Unit.
10. Marketing and selling wood through negotiated and open-market sales to generate sufficient revenue to cover the agency's activities, maintain its operating reserve, and provide Crown timber sales and pricing information.
11. Maintaining a functioning board of directors and engage the committees outlined in the corporation's bylaw #1 (e.g., Advisory, Governance, Finance, etc.) and additional board subcommittees, as required.
12. Continuing to implement strategic initiatives that focus on local and Indigenous community economic development and continuing to create public awareness of NFMC's achievements, forest stewardship, and economic development opportunities with respect to forestry in NFMC's management area.
13. Working with Indigenous communities and MNR on Michano Land Claim matters, as required.
14. Continuing to provide training opportunities to the board and orientation to new board appointees, so that its members are informed of their roles, responsibilities, and powers, as well as their role in the relationship with the ministry, including when there is a potential conflict of interest.

Figure 2. Letter of Direction for NFMC

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

Mission Statement

NFMC's mission statement as outlined in its 2024-29 Strategic Plan, mirrors the objects of the LFMC per Figure 3.

1. To hold forest resources licences in accordance with legislation and to promote the sustainability of our forests.
2. To provide for economic development opportunities for Indigenous peoples.
3. To become a self-sustaining business entity and to optimize the value from 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.

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.
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

During the 2023/24 fiscal year, a Board led strategic planning exercise completed and approved NFMC's Strategic Plan titled "Working Together – Strategic Plan 2024-2029." The Strategic Plan established

NFMC's priorities for the 2024-2029 period. At a high level, the Strategic Plan's areas of focus include forests, indigenous communities, governance, economic development, and research and development.

Agency Governance & Staffing

Corporate Governance

NFMC has a Memorandum of Understanding (MOU) with the Ministry of Natural Resources (MNR). Updated in April of 2021, and re-affirmed in December of 2022, 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 MNR, 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 (Figure 5) 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.

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

NAME	POSITION	TENURE	COMMUNITY	2023-24 REMUNERATION
Laird Van Damme	Chair	20/08/23 – 19/08/25	At large	\$ 8,250
Adam Brown	Vice-Chair	02/07/23 – 01/07/25	At large	\$ 2,600
Tina Forsyth	Director	28/06/23 – 27/06/25	White River	\$ 1,050
Jesse Gaudette	Director	06/08/23 – 05/08/26	Netmizaaggamig Nishnaabeg First Nation	\$ 0
Grant Goodwin	Director	30/07/23 – 29/07/25	Manitouwadge	\$ 1,313
JoAnne Michano	Director	06/08/23 – 05/08/26	Biigtigong Nishnaabeg First Nation	\$ 0
Julie Roy-Ward	Director	02/05/22 – 01/05/25	Hornepayne	\$ 1,313

Figure 5. NFMC Board membership as of March 31, 2024

In accordance with the OFTMA, the NFMC Board of Directors have established four standing committees. The purpose of each committee is outlined below in Figure 6.

Audit and Finance Committee

Purpose: The Audit and Finance Committee is responsible for ensuring that appropriate controls and accountability exists 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

Indigenous Relations Committee

Purpose: The IRC was created to build, maintain, and strengthen NFMC's relationships with our local Indigenous communities and organizations.

Chair: Laird Van Damme

Members: Jesse Gaudette and JoAnne Michano

Non-Voting Member: Carmelo Notarbartolo

Performance Management & Human Resources Committee

Purpose: The Performance Management & 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, and 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.

Chair: To be determined

Members: To be determined

Figure 6. NFMC Board committees

Agency Location

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

Mailing Address

PO Box 1479
14 Hemlo Drive
Marathon, ON P0T 2E0

Contact Information

Phone: 807-229-8118
Website: www.nfmcoforestry.ca
General inquiries: contact@nfmcoforestry.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 Letter of Direction, 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 7) has been designed to be scalable and flexible to accommodate the needs of the Agency. NFMC maintained staffing levels in 2023-24 and does not expect significant changes in 2024-25. 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 Organizational Chart

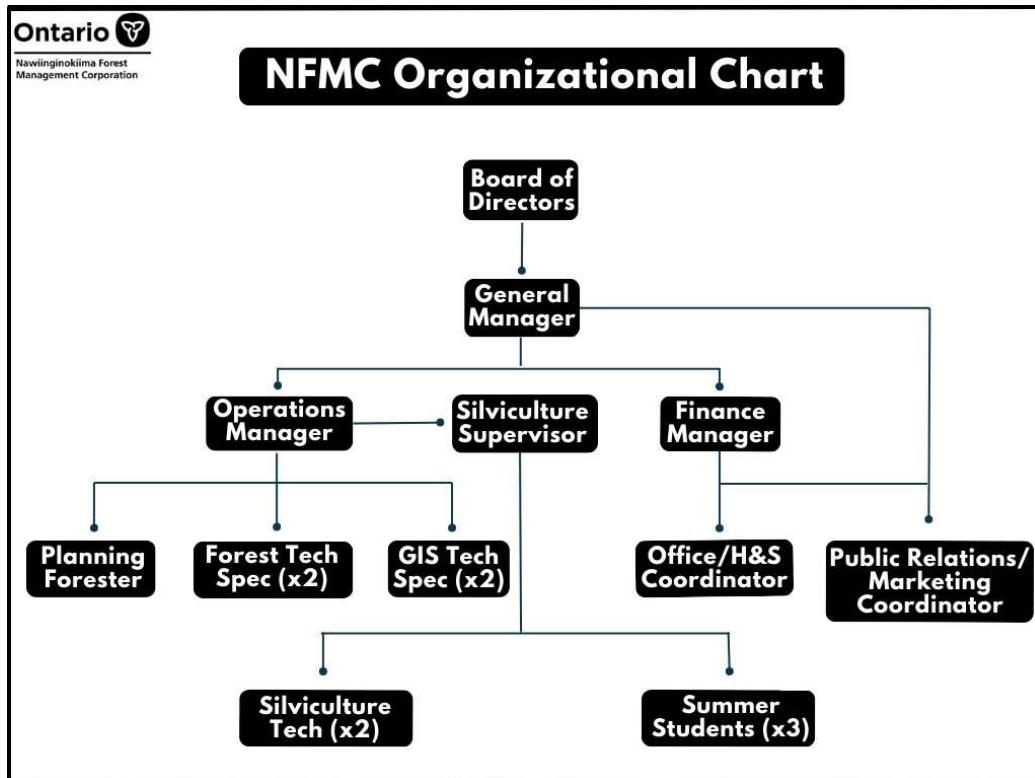


Figure 7. NFMC organizational chart as of March 31, 2024

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

NFMC has recognized that there is a large pool of knowledge available from consultants/service providers/subject matter experts from which it can draw. 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. These responsibilities include adherence to FMPs and all associated legislation and regulations, ensuring 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 Operations Manager, ensures (with the assistance of Silviculture Technicians) that the NFMC forests meet the forest renewal and sustainability requirements set out by the MNR, 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. NFMC has been working at facilitating training opportunities to assist local contractors.

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 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 during the year. The comprehensive H&SP is tailored to adhere to provincial safety legislation and the Occupational Health and Safety Act (2024). 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.

Agency Program Activities

The program activities of NFMC are guided by the conditions of the SFLs it holds, consistent with the requirements of the CFS Act 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 2023-24, 536,000 m³ of wood was delivered from the Pic and White River Forests to receiving mills—summarized in Figure 8. This is an increase from the previous year when NFMC delivered 458,000 m³. While the Terrace Bay pulp mill announced in January 2024 that they are “temporary idling”, other area mills harvested more wood than in the previous year.

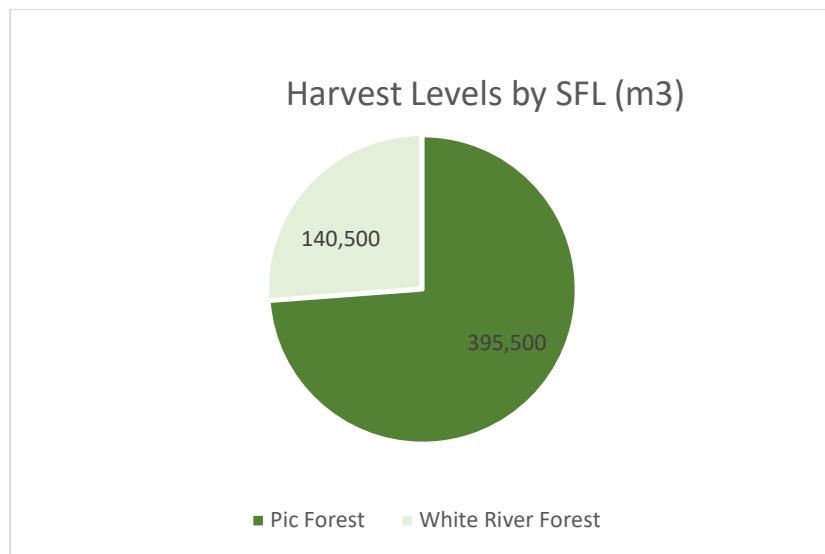


Figure 8. NFMC harvest levels by SFL in 2023-24 (in m³)

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 (Figure 9).

While each of NFMC's customers are responsible for securing contractors to harvest wood, NFMC continues to explore strategic initiatives to increase contractor and mill capacity.

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
White River Forest Products Ltd.	White River	SPF lumber
Nakina Lumber Inc.	Nakina	SPF lumber

Figure 9. NFMC primary customers (locations and products)

Forest Certification

NFMC maintained its FSC® certification on the White River Forest in 2023-24. During the 2023/24 fiscal year, NFMC terminated the Pic Forest certificate with the goal of gaining third-party certification during the 2024/25 fiscal year. NFMC's voluntary third-party certification of the forests under its management has always been 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. Pulp and lumber prices have fallen substantially from levels seen in recent years; this has put pressure on NFMC's softwood customers.

During the 2023/24 fiscal year, Ontario saw two pulp mills go idle, one which is a large customer of NFMC's. These shutdowns have been labelled temporary with no indication of when the mill will start back up.

While lumber demand remains healthy, sawmills are struggling finding customers to buy residual wood chips. This in turn is putting pressure on certain area sawmills due to a lost revenue source.

The upcoming year's projections may vary greatly due to the issues discussed as well as sticky inflation. NFMC must prepare for another uncertain year, with little historical precedence in these circumstances.

Community Engagement & Supporting Local Communities

During 2023-24, NFMC continued its increase in community outreach and face-to-face meetings with stakeholders. The efforts have resulted in a continued increase in uptake for our available Programs. NFMC was able to donate over \$35K toward local community events and sponsorships, award \$42K in scholarships to college and university students from the local management area, and approve just under \$700k in strategic initiatives assisting local businesses in the forestry sector (including First Nation owned businesses).

We will continue to leverage our Programs to assist with challenges our Industry is facing and improve the quality of life our communities offer.

NFMC's social media presence is mainly used as a means for the Agency to reach out to the communities and residents within its management area. Our accounts include X, Facebook, Instagram and our NFMC webpage. These are being leveraged to create awareness of NFMC activities, positive impacts of forestry within the management area, and advertising staffing vacancies within the Agency.

NFMC also completed a promotional video during the year which it has rolled out on its website. This video is intended to educate the local communities and stakeholders on who we are and what we do.

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. During the current fiscal year, NFMC directly contributed over \$3.3 million to the local and regional economy.

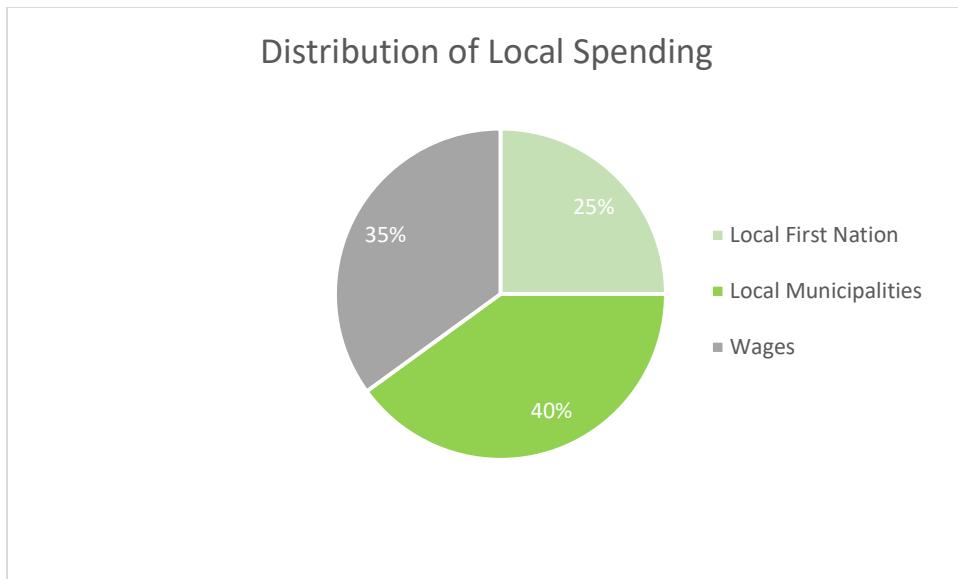


Figure 10. Breakdown of local spending in 2023-24

NFMC purchased goods and services from local First Nations valued over \$800k including its support through strategic initiatives. NFMC purchased another \$1.4 million from vendors within or surrounding its management area located in Municipalities. In addition to purchases listed, NFMC paid \$1.1 million in wages and salaries that were spent in local communities (Figure 10).

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 Forest.
 - Completed renewal programs on both forests consistent with the expectations of the Forest Management Plans and Annual Work Schedules.
 - Continue our partnership with a 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 and investments) on March 31, 2024, is over \$29.3 million.

- NFMC's operating reserve is set at almost \$12 million as of March 31, 2024, consisting of funds that are segregated.
- NFMC has pursued investment opportunities which align with the Ontario Forest Tenure Modernization Act, 2011 to help sustain purchasing power and boost capital.

iii. Extending scope of usage

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

iv. Meeting governance requirements

- Timely submission for all Agency requirements to MNR 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 Strategic Initiatives Program 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 Strategic Initiatives Program applicants with financial support just under \$700k in the fields of harvesting, road building and road construction, creating new employment, and expanding local services.
- 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 with a local First Nation. Provided almost \$500k 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 discussions with Biigtigong Nishnaabeg and Netmizaaggamig Nishnaabeg First Nations on potential new economic development opportunities.

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 tradeshows across the region including Marathon, Manitouwadge, Terrace Bay, Longlac, Wawa and Thunder Bay.

- NFMC awarded 16 scholarships, for a total value of \$42K to local students under its Scholarship Program. The Program is open to students from NFMC communities studying relevant fields.
- 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 2023-24 fiscal year, the merchantable volume harvested on the NFMC management area was 536,000 m³. This volume was below the budget of 807,000 m³. While global demand remained strong, prices for lumber and NBSK dropped during the fiscal year, causing our local industry to struggle. As previously mentioned, the Terrace Bay pulp mill which is a large customer of NFMC, has temporarily idled operations. In addition, shortages in human resource capacity throughout the supply chain (at the mills, in the harvesting sector as well as the trucking power), created a tough local economic climate.

Most of NFMC's delivered volume is softwood, which accounted for almost 90 percent of deliveries (Figure 11). 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.

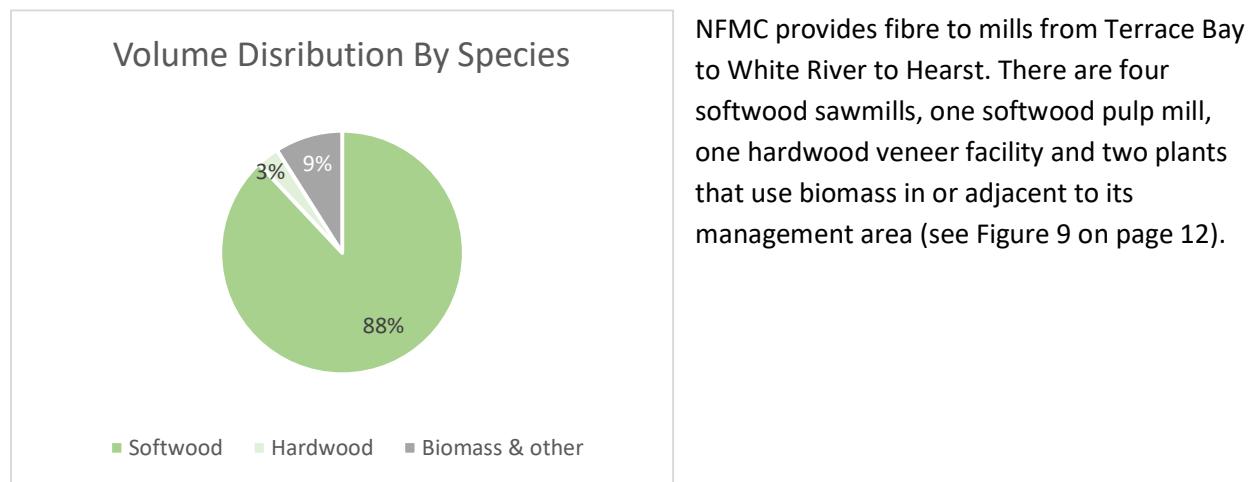


Figure 11. Volume distribution by species type 2023-24

NFMC's primary customers were AV Terrace Bay and White River Forest Products Ltd., which together accounted for more than 60 percent of delivered volume from NFMC's management area (Figure 12).

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.

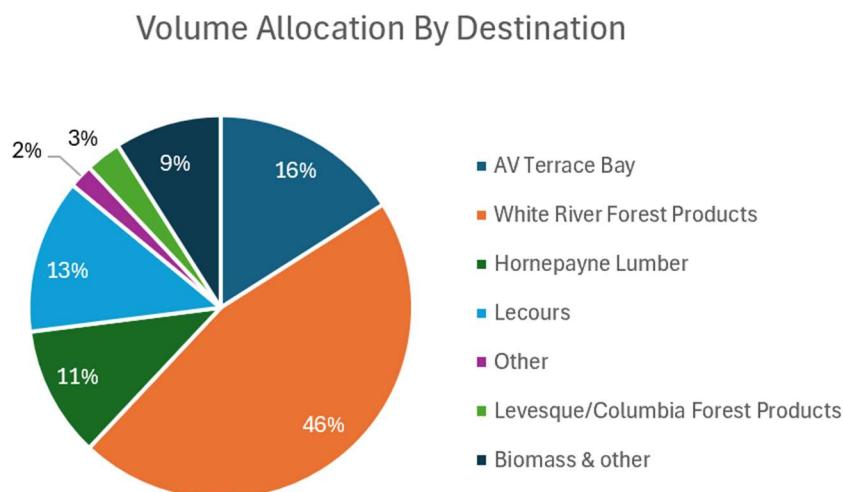


Figure 12. Volume distribution by destination 2023-24

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 2023-24 was almost \$3.80 million. The Pic Forest's expenditures were \$2.70 million, and the White River Forest's expenditures were \$1.10 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.

PROGRAM	QUANTITY
Planting	6,509,435 trees
Stock Production	3,365,000 trees
Mechanical Site Preparation	-
Slash Management	23.5 km
Chemical Site Preparation	225 hectares
Tending	2,030 hectares

Figure 13. 2023-24 Silviculture Program Activities

Due to issues with NFMC's customers business and harvest operations, both the Pic Forest and White River Forest renewal balances are currently below minimum balance. NFMC has been in discussions with the MNR on how to address this. Renewal rates on softwood were set at \$7.50/m3 on the Pic Forest and \$7.00/m3 on the White River Forest. The NFMC's 2023-24 Silviculture Program included the activities shown in Figure 13.

Analysis of Financial Performance

The Agency appointed an independent auditor to review the accounts and financial transactions of the Agency for 2023-24. NFMC is a Crown Agency and operates on a cost recovery basis and is exempt from income taxes under the federal *Income Tax Act*.

While market conditions were weaker in 2023-24 vs 2022-23, and we collected less residual value compared to prior year (\$23k vs \$3.8 million), NFMC still had a profitable fiscal year. NFMC recorded a net profit of \$0.3 million in 2023-24 (2022-23 net income \$3.4 million).

During the fiscal year, pulp and sawmill market prices declined back to pre-covid levels. Due to these conditions and other operational issues, NFMC's largest customer announced a temporary shut down during the year. As a result, NFMC has recorded bad debts of \$0.6m in 2023-24 which represents the entire receivable from this mill.

Balance Sheet

NFMC increased its cash and investments position by \$0.4 million to \$29.3 million during the 2023-24 audit period. The balance of accounts receivable at the end of the audit period was \$3.8 million, of which \$423k is presented as long-term. Accounts receivable is primarily related to stumpage fees and roads infrastructure. NFMC has allowed for \$583k in doubtful accounts.

During the year, NFMC made some minor additions to its property, plant, and equipment. The Agency purchased computers and laptops with a value of \$6k. Property, plant, and equipment are recorded at cost less accumulated amortization.

Liabilities at year-end were \$2.3 million and are primarily related to the accrued Crown dues, strategic initiative payments and 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 almost \$12 million. The operating 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 \$6.8 million. The largest contributors to revenue in 2023-24 were Timber Sales Charges of \$2.2 million, forest access roads recovery of \$2.7 million, \$0.7 million on

administrative revenue and \$0.7 million in interest income. NFMC also recorded over \$0.4 million in revenues to maintain the Industrial Road, which is included in forest access roads recovery. 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.

Revenue in 2023-24 was lower than the previous year. As previously mentioned NFMC collected \$23k in residual vs \$3.8m in the previous year. Residual fees are charged to receiving mills only when market prices of our customers product reach specific price levels set by the Ministry. In 2023-24 market prices stayed below these levels.

Expenditures

NFMC has seen inflationary pressures on certain line items. However, management has been able to manage these pressures to keep costs under the Board's imposed budget and in line with the previous fiscal year. This will continue to be a challenge NFMC will be faced with as inflation has been slower to come down than anticipated.

Wages and benefit costs incurred during the audit period totalled over \$1.1 million, flat year over year. While NFMC saw savings due to staff vacancies, these were offset by staff promotions and salary increases. Due to certain staff vacancies, NFMC saw a slight increase in the use of contractors that provide forest management and GIS services. NFMC incurred just over \$206k in staff vehicle, mileage, and travel expenses during the year.

The largest expenditures during the period were for road construction and maintenance costs totalling over \$2.7 million, costs which were 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.

Risk Events & Mitigation Strategies

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

NFMC discloses its risks on a quarterly basis. During 2023-24, one risk was identified as high, related to the temporary closure of the Terrace Bay mill, and the financial affects it could have for the Agency.

NFMC has an established 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, NFMC's financial outlook.

The mandate of NFMC requires operating as a self-financing business, which included establishing an operating reserve to ensure continued sustainability in response to variations in economic cycles. NFMC

has maximized its operating reserve to equal approximately five years of operating costs. In addition, NFMC sets aside money in its budget to address unforeseen events as part of its Unforeseen Events Policy.

NFMC's unique mandate requires specialized administrative functions including a forest products business-focused financial department and systems support. NFMC's workforce is highly skilled and mobile in today's economy. NFMC 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 NFMC business continuity and the delivery of required programs and support functions. The risk that NFMC faces is not being able to attract, and retain qualified and motivated employees, leading to performance issues, business, and service continuity risks.

NFMC continues to procure insurance appropriate for a prudent business in similar circumstances, including comprehensive general liability insurance and Directors and Officer's obligation insurance.

The biggest risk currently facing NFMC are the consequences of an 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 has seen a recent decline and the increase in interest rates and inflation is a cause for concern. The outlook for pulp is also not optimistic as prices are expected to continue to slip. We remain cautiously optimistic that a recession will be avoided but this remains a risk to monitor.

The Path Ahead

The Board of Directors have finalized and approved a new Strategic Plan covering the next five years. The Plan provides the commitment required to help the local forest industry strengthen and diversify. It includes the necessary vision, direction and financial tools needed to give NFMC the best opportunity at achieving great success.

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 our industry and the expectations of today's workforce. The Agency continues to create an environment that promotes each staff member to achieve their full potential by encouraging professional development and growth.

With the announcement that one of NFMC major customers will be temporary idling, the Agency is facing new challenges. The Agency has worked hard over the years to build healthy reserves to meet these challenges. To mitigate these challenges, NFMC will implement the following strategies:

1. Budget under the assumption that the pulp mill will remain closed for at least 12 months.
2. Management has performed a review of expenditures to ensure efficient operations during the next 12 months.
3. NFMC will look to broaden the market for its products by working with new entrants. New investments in the Wawa area have created potential opportunities for our forests' fibre supply.
4. Explore additional markets for under-utilized species such as poplar and birch.
5. Be open to working with customers to identify new market opportunities.
6. Pursue the sale of open market wood.

7. Leveraging our Strategic Initiatives Program, NFMC will encourage new entrants to the forest industry and support initiatives that make sense for the communities, mills, forest sustainability, and the environment.

Audited Financial Statements

**Nawiinginokiima Forest
Management Corporation
Financial Statements
For the year ended March 31, 2024**

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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, 2024, 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, 2024, 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.

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.

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario
June 26, 2024

Nawiinginokiima Forest Management Corporation
Statement of Financial Position

March 31	2024	2023
Assets		
Current		
Cash (Note 3)	\$ 12,307,965	\$ 18,018,253
Accounts receivable (Note 4)	3,386,994	3,651,056
Short term investments (Note 5)	17,024,868	8,347,719
Prepaid expenses	168,722	176,294
	<hr/>	<hr/>
	32,888,549	30,193,322
Long term receivables (Note 4)	423,000	110,000
Long term investments (Note 5)	-	2,529,692
Roadside inventory	-	143,735
Property, plant and equipment (Note 6)	92,908	106,957
	<hr/>	<hr/>
	\$33,404,457	\$ 33,083,706
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 2,277,408	\$ 2,281,556
	<hr/>	<hr/>
Net assets		
Unrestricted	19,160,450	19,302,150
Operating reserve (Note 9)	11,966,599	11,500,000
	<hr/>	<hr/>
	31,127,049	30,802,150
	<hr/>	<hr/>
	\$33,404,457	\$ 33,083,706

On behalf of the Board:


 Director


 Director

Nawiinginokiima Forest Management Corporation
Statement of Operations and Accumulated Net Assets

For the year ended March 31	2024	2023
Revenue		
Management fees	\$ 709,748	\$ 675,714
Forest renewal activity	387,409	357,247
Interest income	765,546	321,116
Union dues recovery	25,292	236,691
Forest access roads	2,730,310	3,016,988
Timber sales charges	2,209,715	5,404,208
Other	1,008	28,046
	6,829,028	10,040,010
Expenses		
Amortization	19,920	19,788
Bank and service fees	15,559	14,698
Bad debt (recovery)	583,800	(3,620)
Board of Directors activities	23,290	21,675
Strategic initiatives	1,102,683	1,391,999
Contract services	55,539	50,123
Forest certification	49,766	77,326
Forest management services	121,776	106,443
Human resources development	10,126	25,110
Insurance	12,479	6,253
Miscellaneous (recovery)	-	(3,177)
Office	134,522	104,170
Professional fees	35,194	37,930
Public access road maintenance	2,740,751	3,012,978
Public relations	144,930	117,384
Rent and lease	75,728	64,200
Travel and automotive	206,203	177,817
Union dues	25,292	236,691
Wages and benefits	1,146,571	1,171,227
	6,504,129	6,629,015
Excess of revenue over expenses	324,899	3,410,995
Net assets - unrestricted, beginning of the year	19,302,150	15,891,155
Transfer to operating reserve (Note 9)	(466,599)	-
Net assets - unrestricted, end of the year	\$19,160,450	\$ 19,302,150
Net assets - internally restricted, beginning of the year	\$11,500,000	\$ 11,500,000
Transfer to operating reserve (Note 9)	466,599	-
Net assets - internally restricted, end of the year	\$11,966,599	\$ 11,500,000

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

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

<u>For the year ended March 31</u>	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Excess of revenue over expenses for the year	\$ 324,899	\$ 3,410,995
Item not involving cash:		
Amortization	19,920	19,788
	<u>344,819</u>	<u>3,430,783</u>
Change in non-cash working capital items:		
Accounts receivable	287,377	(269,668)
Prepaid expenses	7,572	(114,569)
Accounts payable and accrued liabilities	(4,148)	(187,182)
	<u>635,620</u>	<u>2,859,364</u>
Cash used in investing activities		
Long term receivable advances	(313,000)	(110,000)
Purchase of investments	(6,147,457)	(10,877,411)
Decrease in roadside inventory	120,420	210,838
	<u>(6,340,037)</u>	<u>(10,776,573)</u>
Cash used in capital activities		
Purchase of property, plant and equipment	(5,871)	(7,705)
Decrease in cash during the year	(5,710,288)	(7,924,914)
Cash, beginning of year	18,018,253	25,943,166
Cash, end of year	\$12,307,965	\$ 18,018,253

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2024

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>Investments are recorded at amortized cost less any valuation allowances. Interest and dividends attributable to financial instruments are reported 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: 10%; 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, 2024

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.

Interest and union dues recoveries are recorded on an accrual basis of accounting, in the period earned.

Use of Estimates The preparation of financial statements in accordance with Canadian public sector for not-for-profit organizations 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 allowance for doubtful accounts, useful lives of property, plant and equipment, 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, 2024

2. Nature of Business

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

The mandate for Nawiinginokiima Forest Management Corporation is as follows:

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

3. Cash

The Corporation holds an interest bearing bank account with a year end balance of \$1,841,553 (2023 - \$1,757,234), as at March 31, 2024 the account beared interest of 4.89%.

Nawiinginokiima Forest Management Corporation
Notes to Financial Statements

March 31, 2024

4. Accounts Receivables

	2024	2023
Forest Renewal Trust	\$ 110,771	\$ 84,242
Roads program	1,366,361	1,301,495
Stumpage fees	2,512,297	1,869,418
Trade	94,449	17,695
Union dues recovery	206,336	236,691
Road side inventory	103,580	224,000
HST Receivable	-	27,515
	<hr/>	<hr/>
Less: long term portion	4,393,794	3,761,056
Less: allowance for doubtful accounts	(423,000)	(110,000)
	<hr/>	<hr/>
	\$ 3,386,994	\$ 3,651,056
	<hr/>	<hr/>

5. Investments

	2024	2023
Short term investments	\$17,024,868	\$ 8,347,719
Long term investments	-	2,529,692
	<hr/>	<hr/>
	\$17,024,868	\$ 10,877,411

The entity holds investments in a variety of guaranteed investment certificates with fixed interest rates varying between 4.25% and 5.76% with maturity dates between April and December 2024.

Nawiinginokiima Forest Management Corporation
Notes to Financial Statements

March 31, 2024

6. Property, Plant and Equipment

	2024		2023	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 67,167	\$ 67,167	\$ 67,167	\$ 67,167
Leasehold improvements	154,064	68,516	154,064	53,110
Computer software	36,330	36,330	36,330	36,330
Computer equipment	53,485	46,125	52,732	46,729
	<hr/> \$ 311,046	<hr/> \$ 218,138	<hr/> \$ 310,293	<hr/> \$ 203,336
Net book value		<hr/> \$ 92,908		<hr/> \$ 106,957

7. Credit Facility

The corporation has a maximum available business visa facility of \$50,000 with TD Canada Trust

8. Accounts Payable

	2024	2023
Trade	\$ 358,805	\$ 474,943
HST payable	16,595	-
Roads	1,177,583	1,008,137
Stumpage fees	622,392	456,838
Wages	100,499	104,947
Union Dues	1,534	236,691
	<hr/> \$ 2,277,408	<hr/> \$ 2,281,556

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2024

9. 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.

	2024	2023
Balance, beginning and end of year	\$11,500,000	\$ 11,500,000
Transfer from unrestricted net assets	<u>466,599</u>	-
Balance, end of year	\$11,966,599	\$ 11,500,000

10. Remuneration

Total remuneration of the Board members of the Corporation was \$14,525 (\$15,063 - 2023) during the year.

11. Commitments

During the 2020 fiscal year, NFMC entered into 10 year office lease agreement, with a 10 year renewal option, at an annual cost of approximately \$45,000. Monthly lease payments are adjusted annually on September 1st, based on the building operating costs incurred by the lessor in the previous year.

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.

Nawiinginokiima Forest Management Corporation Notes to Financial Statements

March 31, 2024

12. 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 foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. NFMC is exposed to this risk through its investments and interest bearing bank accounts where an interest rate change could impact interest income.

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 \$1,136,847 (\$1,628,417 - 2023), 31 to 60 days \$881,105 (\$244,440 - 2023), 61 to 90 days \$258,019 (\$318,895 - 2023), and over 90 days \$888,586 (\$217,335 - 2023).

Approximately 45% (62% - 2023) of NFMC's total revenues for the year and 60% (41% - 2023) 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.