

# 2013/14

## Nawiinginokiima Forest Management Corporation Annual Report



# Annual Report

## 2013-2014

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## Chair's Message



As I review 2013 – 2014, I look back on it proudly. It was truly a year of ‘firsts’ for the Nawiinginokiima Forest Management Corporation (NFMC). We completed our first full fiscal year as an Ontario Crown Agency; we hired our first full time staff members; we established our first office location; we passed by Board resolution our first Corporate Social Responsibility Charter; and the list goes on. The future of the NFMC looks very promising.

As we move forward, the NFMC is committed to making a positive contribution to the communities in which we live, work, and support. We will act as a responsible corporate citizen and value the trust bestowed upon us to manage public resources in a constructive and consultative manner.

The value of the forestry industry and its historic culture in our communities cannot be understated. Forestry was once the major driving economic force on our land base and it is making a strong comeback. It is our responsibility to ensure we support our forestry industry partners to make them more economically competitive and sustainable. We do not take this responsibility lightly.

In closing, the NFMC is steadfastly committed to our mandate to support the forest industry and be a partner in sustainable local economic development. We will be innovative and a leader in implementing positive change that will create local wealth and help build a stronger Ontario.

Yours Truly,

A handwritten signature in black ink, appearing to read "Daryl Skvorchinski".

Daryl Skvorchinski  
Chair, Nawiinginokiima Forest Management Corporation

## 1.0 Background

### 1.1 Establishment of the NFMC

The Nawiinginokiima Forest Management Corporation (NFMC) is the first Ontario local forest management corporation established under the *Ontario Forest Tenure Modernization Act, 2011* (OFTMA). Significant time and effort was given over the past three years to develop this new forest tenure model. The process of establishing the NFMC occurred in three distinct stages:

Stage 1: Pre-NFMC Establishment (pre-Regulation: ~ 14 months)

This stage supported the development and approval by government of the Ontario Regulation 111/12 establishing NFMC. In this stage, a proposed management area was identified and a local working group (WG) was established. The WG comprised of representatives from each of the local and First Nations (FNs) communities, the two existing sustainable forest license holders, and the MNR. The WG shared information and made recommendations to the provincial government related to the proposed management area, conceptual business model, and governance structure of the organization.

Stage 2: Post-NFMC Establishment (post-Regulation– Interim Board of Directors: ~ 9 months)

This stage included the appointment of the interim Board of Directors consisting of Ontario Public Service employees who worked closely with the local working group to address immediate business requirements, including banking arrangements and the development of the initial by-law. This stage also included the design of the community nomination process as well as the public appointment process for appointing the permanent Board of Directors.

Stage 3: Post-NFMC Establishment (post-Regulation– Permanent Board of Directors ~ 13 months)

This stage included the appointment of the permanent Board of Directors and their work to develop the organizational structure, operational capacity and strategic direction for the organization including the assumption of the forest resource licenses and the transition of operations for a portion of the proposed management area. During this time, the Ministry of Natural Resources and Forestry (MNRF) provided significant resources to support the new organization including staff to act as Interim Chief Financial Officer and Interim General Manager until permanent staff could be recruited.

During this stage, the NFMC began the process of hiring its permanent staff including senior management. In the fourth quarter of 2013-14 and the first quarter of 2014-15 NFMC's management assumed control of the operations and the MNRF support staff returned to their previous positions.

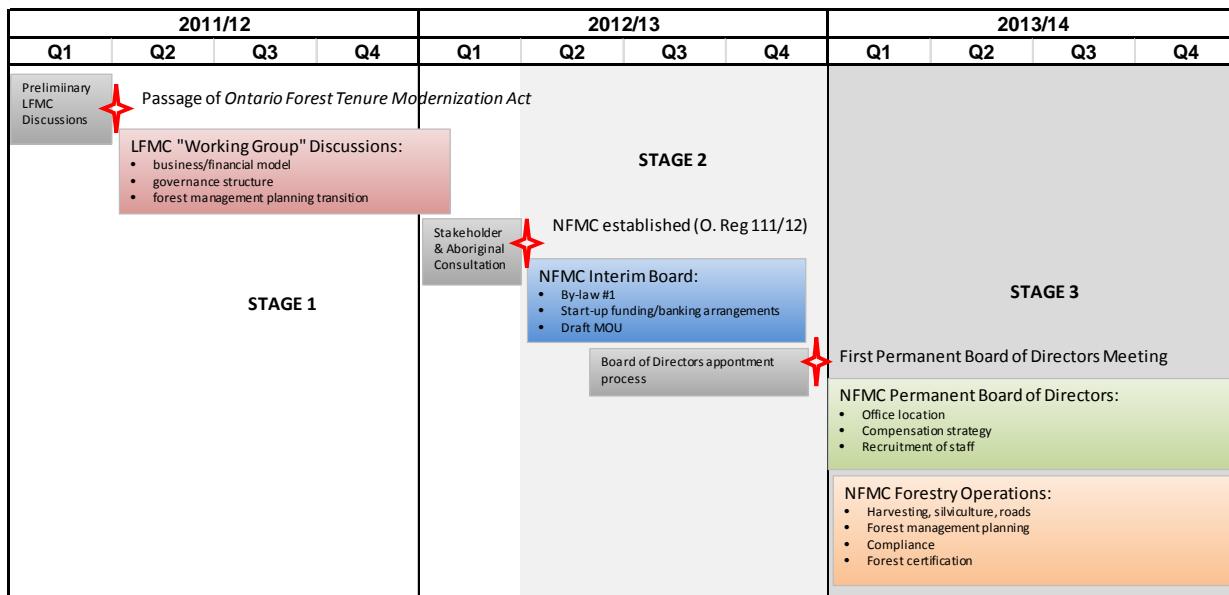


Figure 1. NFMC Establishment Timeline

### ***1.2 Agency Role and Mandate***

The NFMC was established through the passage of Regulation 111/12 under the *Ontario Forest Modernization Act, 2011 (OFTMA)* on May 29, 2012, and represents a significant milestone towards modernizing forest tenure in Ontario.

The OFTMA provides for the establishment of Ontario local forest management corporations (LFMC). As an agent of the Crown, the agency is subject to five objects:

1. To hold forest resources licences and manage Crown forests in accordance with the *Crown Forest Sustainability Act, 1994* and to promote the sustainability of Crown forests.
2. To provide for economic development opportunities for Aboriginal 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.

 Ontario

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e-Laws

[Français](#)

Ontario Forest Tenure Modernization Act, 2011

ONTARIO REGULATION 111/12

ONTARIO LOCAL FOREST MANAGEMENT CORPORATIONS

Consolidation Period: From May 29, 2012 to the [e-Laws currency date](#).

No amendments.

*This is the English version of a bilingual regulation.*

**Nawinginokima Forest Management Corporation established**

1. An Ontario local forest management corporation to be known in English as the Nawinginokima Forest Management Corporation and in French as Société de gestion forestière Nawinginokima is established as a corporation without share capital. O. Reg. 111/12, s. 1.

2. Omitted (provides for coming into force of provisions of this Regulation). O. Reg. 111/12, s. 2.

[Français](#)

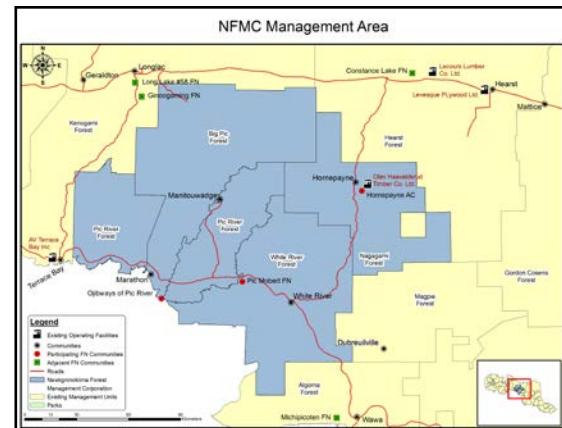
## The NFMC is an agency of the Government of Ontario

### Key elements of a Crown agency

- A provincial government entity not organizationally part of a ministry
- Established by government through a constituting instrument (under or by statute, regulation, or order in council);
- Accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides;
- Where government makes the majority of appointments; and,
- With the authority and responsibility granted by the government to perform an ongoing public function or service.

The NFMC was established to operate within a defined management area that includes the communities of the Ojibways of the Pic River First Nation, Pic Mobert First Nation, Hornepayne Aboriginal community, Marathon, Hornepayne, Manitouwadge and White River.

The management area is comprised of four forest management units: Big Pic, Pic River, White River and Nagagami Forests. The management area encompasses approximately 1.9 million hectares of productive Crown forest with an available harvest volume of 2.2 million cubic metres of merchantable fibre and 435,000 cubic metres of biomass fibre annually (based on current FMPs).



### Mandate

The mandate of the NFMC is as follows:

- Manage Crown forests sustainably in accordance with the *Crown Forest Sustainability Act, 1994* including the development and implementation of FMPs;
- Market and sell available Crown timber in a manner that:
  - creates a cost competitive, affordable, and accessible supply of Crown timber to the forest sector;
  - promotes full utilization and best end use of available Crown timber;
  - recognizes importance of local forest businesses for employment and community stability;
  - is responsive to changing conditions; and,
  - provides a continuous and predictable supply of Crown timber.

- Provide economic benefits to communities dependent on Crown timber from the management area, including employment and economic development opportunities in the forest sector;
- 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 in response to variations in economic cycles;
- Reinvest in the forest to improve the Crown forest asset through the following activities:
  - Intensive silviculture
  - Training and capacity development for Aboriginal communities
  - Forestry research and development
  - Forest sector marketing and forest product development
  - Other activities as assigned by the Minister
- Advise the MNRF's Minister on matters related to the forest industry and forest sector; and
- Collect, maintain and provide Crown timber sales and pricing information.

### ***1.3 Corporate Governance***

While the NFMC operates under the *Ontario Forest Tenure Modernization Act, 2011*, the MNRF is responsible for the administration of the Act.

The Corporation is required to meet all obligations for a Crown agency and has entered into a Memorandum of Understanding (MOU) with the MNRF that outlines the accountability relationship of the Agency and the Ministry. Specifically, the responsibilities of the Minister, Deputy Minister, Chair of the NFMC, the Board, and the General Manager are outlined within the MOU.

#### **Accountability**

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

#### **Role of the Board**

The job of the Board members include:

- Supporting the General Manager, through approval of the operating budget, review of progress on strategic initiatives, and assistance in formulating next steps;
- Reviewing and approval of policies, identification of direction, with a focus on moving towards *taking initiative* rather than *being reactive*;
- Identifying and communication of potential problems growing in communities, as Directors represent key links between the NFMC and the communities (in this light, representative directors are to be kept informed of NFMC higher level activity with their constituents, e.g., meeting with Chief-in-Council or Mayor-in-Council);

- Involvement in communications with communities, e.g., attending meetings with community members;
- Managing political affairs, e.g., connections with the Minister; and
- Meeting the expectation to be knowledgeable, engaged, and present at Board meetings.

### **Board of Directors**

In January and February 2013, the inaugural Board of Directors was appointed through the Public Appointments Secretariat process. An additional Board member was appointed in March 2014. Current Board membership includes representatives from the communities of Marathon, Manitouwadge, White River, Pic Mober First Nation and the Ojibways of Pic River First Nation and two members-at-large who broaden its functional knowledge base and experience. The NFMC continues its recruitment efforts to fill vacant member positions.

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

The seven NFMC Board members in place for 2013/14 and their tenure is listed below:

<b>Member Name</b>	<b>Position</b>	<b>Tenure</b>
Daryl Skworchinski	Chair	01-Feb-2013 to 31-Jan-2016
Grant Goodwin	Vice Chair	20-Feb-2013 to 19-Feb-2015
Raymond Boudreau	Member	01-Feb-2013 to 31-Jan-2016
Tina Forsyth	Member	23-Jan-2013 to 22-Jan-2017
Gaetan Malette	Member	23-Jan-2013 to 22-Jan-2017
Donald Fry	Member	01-Feb-2013 to 31-Jan-2017
Daniel Couchie	Member	19-Mar-2014 to 18-Mar-2017

## Board Committees

In accordance with the *Ontario Forest Tenure Modernization Act, 2011*, the Board has established four standing committees although not all committees are currently active:

### **Audit and Finance Committee**

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

*Chair: Tina Forsyth*

*Members: Grant Goodwin, Gaetan Malette, John MacGillivray*

### **Governance Committee**

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

*Chair and Members: To be determined*

### **Performance Management and Human Resources Committee**

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

*Chair and Members: To be determined*

### **Advisory Committees**

Also in accordance with the Act, the Board has established a Stakeholder Advisory Committee whose membership will consist of individuals other than members of the Board.

The Stakeholder Advisory Committee will provide advice and recommendations to the Board on matters related to the Agency such as community interests or opportunities and forest industry expertise.

*Chair and Members: To be determined*

## **2.0 Description of Activities**

The year 2013-14 was an important year for the forest industry in Northern Ontario. After many years of decline, the industry showed positive signs as prices of wood recovered and some mills that were once closed have re-opened. There are still many challenges going forward but the forecast is for continued improvement.

Forest Resource Licences for the Big Pic and Pic River forests were issued to the NFMC by the MNRF effective April 1, 2013. All forestry activities on these forests are carried out under the authority of an approved Forest Management Plan. These activities are subject to an Independent Forest Audit every five years and the audit results are tabled in the Ontario legislature and made available to the public. The NFMC's commitment to sustainability continued as the company sought Forest Stewardship Council certification.

During the 2013-14 fiscal year, 509,000 cubic metres were delivered from the Big Pic and Pic River forests to receiving mills, this compares to 401,000 cubic metres in 2012-13. The primary customers were AV Terrace Bay Inc., Olav Haavaldsrud Timber Co. Ltd., Levesque Plywood Limited, and White River Forest Products Ltd. The majority of volume was delivered by its two primary contractors on the land base, B&M Hauling and AV Terrace Bay.

Leading up to March 31, 2014, the agency has been actively working to establish two important arrangements: the assumption of forest management responsibilities, and the issuance of the long-term sustainable forest licenses by the MNRF for two of the four forests (Big Pic and Pic River) in the proposed management area. In the foreseeable future, the

agency will be undertaking discussions on the proposed transition of the existing sustainable forest licences on the White River and Nagagami forests.

The 2013-14 fiscal year saw the establishment of the main office for NFMC in Marathon and the transition of to a fully functioning Crown agency with its own staff.

## ***2.1 Staffing and Office Establishment***

During 2013/14, the NFMC developed a comprehensive compensation strategy which was approved by the Minister. This strategy allowed the NFMC to move forward with the hiring of permanent staff for its Marathon office. Beginning in October of 2013, NFMC staff began to assume the roles and responsibilities of the MNRF support staff. In February 2014, through the recruitment process, the NFMC hired Carmelo Notarbartolo as its first permanent General Manager.

The NFMC is still growing and is in the process of determining its employment needs to support the hiring of additional operations and administrative employees in the 2014/15 fiscal year.

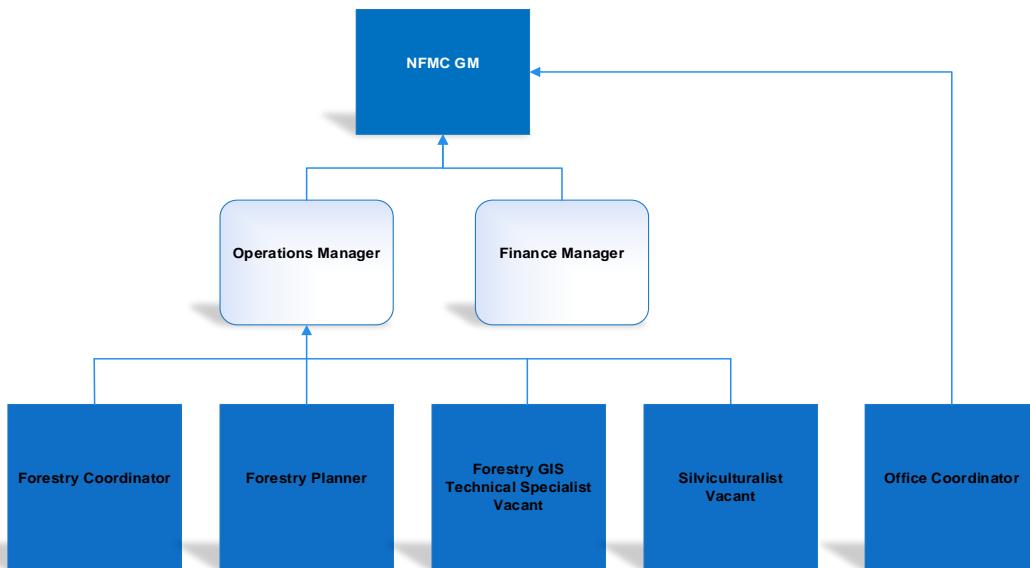


Figure 2. Current NFMC organization structure (November 2014)

## ***2.2 Forest Management and Operations***

Forest Resource Licences for the Big Pic and Pic River forests were issued to the NFMC effective April 1, 2013 and the agency began assuming forest management and operational responsibilities under the conditions of those licences.

During this period, the NFMC has begun to establish appropriate mechanisms and structures to ensure ongoing activities associated with forest management planning, forest renewal and forest operations including harvesting and road construction and maintenance.

Harvesting arrangements were put in place with existing contractors to operate under the NFMC's forest resource licences and discussions were initiated with mill customers on administration fees and on arrangements for longer-term memorandum of agreements for wood supply. An agreement was reached with both the MNRF and the NFMC's mill customers to facilitate the flow of funding under the Provincial Forest Access Roads Program to support eligible road maintenance and construction activities on the forests.

Renewal activities that were previously planned for 2013/14 by the MNRF were transitioned and delivered by the NMFC and its service providers during this period. Activities undertaken included implementation of a 2.14 million tree plant

program, 3,600 hectare aerial tending and site preparation program as well as depletion mapping and appropriate planning and budgeting for the upcoming 2014/15 renewal programs on the forests.

### ***2.3 Forest Certification and Environmental Policy***

#### ***Forest Certification***

In the spring of 2013, the NFMC initiated a process to obtain Forest Stewardship Council® (FSC®) certification for one of its licensed areas (the Big Pic forest) in partnership with its main customer, AV Terrace Bay. The pre-assessment audit was conducted in June 2013 and the full forest management assessment was conducted in November 2013 against the FSC® National Boreal Standard. The NFMC received the draft audit report in February 2014. The NFMC and AV Terrace Bay addressed the draft audit report and hope to achieve FSC® forest management certification in the 2014/15 fiscal year.

#### ***Environmental Policy***

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

The environmental policy states that the NFMC will:

- integrate the consideration of environmental concerns and impacts into all of our decision making and activities,
- promote environmental awareness among our employees and encourage them to work in an environmentally responsible manner,
- train, educate and inform our employees about environmental issues,
- where required by legislation or where significant health, safety or environmental hazards exist, develop and maintain appropriate emergency and spill response plans,
- regularly communicate our environmental program to our clients, customers and the public and encourage them to support it,
- commit to the advancement of sustainable forest management practices and to the pursuit of Forest Stewardship Council (FSC) certification on the NMFC management area, and
- strive to continually improve our environmental performance by periodically reviewing our environmental policy in light of our current and planned future activities.

### ***2.4 Start-up Funding***

In March of 2013, after consultation with the Forestry Futures Committee and the NFMC interim Board of Directors, the disbursement criteria and application process for the LFMC Conversion Program was established by the MNRF. On March 8, 2013, the NFMC submitted an application for access to \$1.78 million of funding estimated to be available under the LFMC Conversion Program during the 2013/14 fiscal year to support its start-up and establishment.

During fiscal 2013-14 the NFMC received disbursements from this fund for \$875,000. The balance available to the NFMC in the Forestry Futures Trust account at the end of the year was \$905,000.

This funding was used to support the start-up and establishment costs for the NFMC consistent with the terms of the LFMC Conversion Program. Further details on start-up expenditures are provided in Sections 3.2 and 4.0.

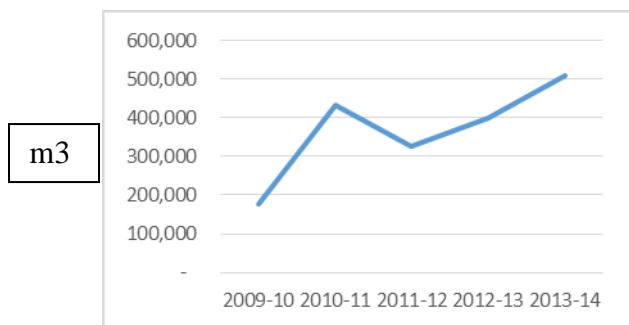
### ***2.5 Forest Product Markets***

Until 2005, the proposed management area for the NFMC had enjoyed over a decade of healthy market conditions. Over 11 facilities relied on the area as an important source of supply, including two pulp mills, one paper mill, four large

sawmills and four panel board mills. Annual supply from the management area peaked in 2005 at approximately 2.3 million cubic metres.

Over the past five years, approximately 1.3 million cubic metres of demand has been lost from the management area, much of it permanently, due to the closure and indefinite idling of the areas forest manufacturing capacity. By 2009, six of the main fibre consumers had shut-down or had been indefinitely idled and the annual harvest volume had fallen to just over 200,000 cubic metres. While some harvesters were able to find alternative, more distant markets over the last few years, activity on all four management units has remained significantly depressed and the forests have struggled to remain economically viable.

#### Volume of Wood Harvested (2009-2014)



In 2013-14, the management area supplied over 500,000 cubic metres of wood and had six main customers. Harvesting capacity was also increasing during this period, largely due to the restart of the Terrace Bay pulp mill and White River sawmill.

#### *2.6 Community Engagement*

During the 2013/14 fiscal year, the NFMC worked hard to establish a strong foundation to allow it to move forward with its objects and mandate to support local and First Nation economic development.

The Board has made efforts to rotate its Board meetings within the local communities and meet with community leaders and their councils to provide updates on the NFMC and its operations. The NFMC has also taken a proactive approach for the development of its procurement policy and shared a draft with representatives from local and Aboriginal communities for review and comment.

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

#### *2.7 Key Decisions and Accomplishments of the Board*

The 2013/14 fiscal year was very active for the Board of Directors. During this time, the Board held approximately 16 Board meetings to discuss a broad range of topics associated with the start-up and establishment of the new agency.

Key activities to date include: finalizing its compensation strategy, hiring permanent staff, locating and establishing the office, developing systems for financial management, internal controls, procedures, and policies, and facilitating ongoing forest management, forest renewal and forest harvesting activities and forest certification.

## 3.0 Analysis of Performance

### Performance Measures

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

Goal	Performance measure	Standard/Target	2013/14 Achievements
1. World class forest management company	<ul style="list-style-type: none"> <li>Are the forests being managed sustainably as per audits/ certification standards, etc.?</li> <li>Has the renewal program met or exceeded the commitments made in the approved FMP?</li> </ul>	All forests certified by 2016/2017  Favourable audit findings	Initiated FSC certification on the Big Pic Forest  Began preparation work for upcoming Big Pic IFA
2. Becoming financially self sufficient	<ul style="list-style-type: none"> <li>Does the NFMC have sufficient cash flow to support operations</li> <li>Has an appropriately sized operating reserve been established?</li> </ul>	\$200,000 to \$500,000 of free cash flow  \$2.5 million operating reserve by year end 2014/15	Cash on hand at Mar 31/14 of \$467,315  Anticipate moving forward with operating reserve in 2014/15
3. Extending scope of usage	<ul style="list-style-type: none"> <li>Have commitments volumes been made available and/or utilized?</li> <li>Has wood been made available to new entrants? How much? Has NFMC moved closer to a more economically efficient system for wood allocation and pricing?</li> <li>Has utilization of available timber over operational period improved and/or new markets been developed?</li> </ul>	100 percent of commitment volume made available  Percentage of wood made available to open market customers  Positive utilization trends	Commitment volumes made available but not fully utilized due to constrained markets  Positive trend in utilization with ~ 509,000 m <sup>3</sup> flowing in 13/14 which represents a increase of 100,000 m <sup>3</sup> from the year before.
4. Building new local forest related industry	<ul style="list-style-type: none"> <li>Have local economic development opportunities been created/supported by NFMC operations?</li> </ul>	Establish benchmarks for current levels. Targets to be determined	To be completed in 2014/15
5. Establishing a new baseline for First Nation engagement	<ul style="list-style-type: none"> <li>How have communities interests been represented by NFMC operations and decisions?</li> <li>Have Aboriginal economic development opportunities been developed?</li> </ul>	Establish benchmark for current levels  Targets to be determined	To be completed in 2014/15
6. Engaging the community in forestry	<ul style="list-style-type: none"> <li>How have communities interests been represented by NFMC operations and decisions?</li> </ul>	Number of events attended  Number of newspaper articles	Staff attended community event in Marathon  Various articles in the Marathon Mercury and Northern Ontario Business

Figure 3. NFMC Preliminary Performance Measures

### 3.1 Operational Performance

During the 2013/14 fiscal year, the NFMC harvested approximately 509,000 cubic metres which represents 93% of its forecasted harvest volume of 550,000 cubic metres for the year. Volumes were lower primarily due to suppressed demand and operational issues. The variance in harvesting and wood deliveries, did not present a material impact to the NFMC cash flow as expenditures were also lower than forecast due to delays in establishing the office and hiring of permanent NFMC staff which were originally forecast to occur in June 2013.

Available funding under the MNRF's Provincial Forest Access Roads program was fully utilized in 2013/14 to support eligible road construction and maintenance activities on the forests.

Forest management activities were carried out with support from qualified service providers to facilitate ongoing forest operations including any required amendments to the forest management plans and revisions to annual work schedules.

The forest renewal programs were carried out as planned under the forest management plans, with the exception of the site preparation program which was postponed to the spring/ summer of 2014/15 due primarily to delays in issuance of the tender and a lack of contractors capacity.

Establishing the new agency required the Board of Directors to meet frequently and costs for 2013/14 were as expected during this time. The Board has made significant progress in establishing the Corporation as noted in Section 2.7.

The General Manager Recruitment and Audit and Finance committees were established and active during the reporting period. The NFMC will continue to work on developing terms of references and membership for the Stakeholder Advisory Committee and other Board committees as required.

### **3.2 Financial Performance**

As the NFMC is a Crown Agency and operates on a non-profit basis it is exempt from income taxes under the Income Tax Act. During 2012/13 the NFMC had limited operations and financial activity to report and did not produce financial statements as part of its first annual report. The Agency appointed an independent auditor to review the accounts and financial transactions of the Agency for 2013/14 (Section 4.0). This audit included an extended period (January, 2013 – March, 2013) to cover any financial activities accrued by the Corporation in the 2012/13 fiscal year.

#### **Balance Sheet**

The NFMC increased its cash position to \$467,315 during the audit period. The balance of accounts receivable at the end of the audit period was \$2,566,019 composed of start-up funding from the Forestry Futures Trust Fund (\$905,000), the MNRF's Roads Program funds (\$758,940), stumpage fees (\$695,649) and trade receivables (\$206,430). Trade receivables include administration fees and permit fees etc.

The NFMC acquired computer and software valued at \$21,636 during the audit period. Equipment is recorded at cost less accumulated amortization. Road construction costs are expensed when incurred.

Liabilities at year end were \$1,386,296 primarily related to the accrued Crown dues for deliveries in January-March 2014 but not billed until after the year end totalling \$695,649. The trade payables total \$661,263. These payables are primarily associated with forest access roads costs and a reimbursement of \$631,279 is expected from MNRF's Roads Program.

#### **Revenues**

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

The total revenue for the period, including start-up funding from the Forestry Futures Trust Fund totalled \$4,281,341. Operating revenues from administration and similar fees for the audit period were \$449,742. The funding from the Forestry Futures Trust Fund was \$1,780,000 including \$905,000 receivable at year end. Roads funding for the audit period was \$1,446,042.

The audit period covers a portion of the 2012/13 fiscal year when the Board of Directors was appointed. Start-up funding disbursements and wood sales began in 2013/14 fiscal year and therefore the Corporation did not have any revenues to report during the 2012/13 fiscal year.

#### **Expenditures**

The wages and benefit cost incurred during the audit period totalled \$120,454. The Board of Director expenses totalled \$78,399.

The largest expenditure during the period was road construction and maintenance cost of \$1,441,129. Forest management costs, including renewal treatments amounted to \$662,681. Additional expenditures included forest certification costs of \$120,401.

There were limited costs and expenditures incurred by the Corporation during 2012/13. Expenditures began to accrue in late February 2013 with the appointment of the post interim Board of Directors. No funds were disbursed by the NFMC in 2012/13 and the expenses were included as part of the 2013/14 audited financial statements (Section 4.0). Costs and expenditures associated with the period of time in which the interim Board of Directors (June 2012 to February 2013) have not been accrued to the Corporation and have been covered by the MNRF and/or applicable Ministry.

Similarly, any costs and expenditures, including related salary and benefits, associated with the work of the transition manager appointed by the MNRF and any other MNRF staff to support the operationalization of the Corporation was incurred by the Ministry.

## 4.0 Audited Financial Statements

**Nawiinginokiima Forest  
Management Corporation  
Financial Statements**  
For the 14 month period ended March 31, 2014

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of Nawiinginokiima Forest Management Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated surplus and cash flows for the 14 month period then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nawiinginokiima Forest Management Corporation as at March 31, 2014 and the results of its operations and its cash flows for the 14 month period then ended in accordance with Canadian public sector accounting standards.

*BDO Canada LLP*

Chartered Accountants, Licensed Public Accountants

Thunder Bay, Ontario  
 August 5, 2014

**Nawiinginokiima Forest Management Corporation  
Statement of Financial Position**

**March 31, 2014**

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**Assets**

**Current**

Cash	\$ 467,315
Accounts receivable (Note 3)	<u>2,566,019</u>
	 <u>3,033,334</u>
Equipment (Note 4)	 <u>14,424</u>
	 <b>\$ 3,047,758</b>

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**Liabilities and Net Assets**

**Current**

Accounts payable and accrued liabilities (Note 5)	\$ 1,386,296
Net assets	<u>1,661,462</u>
	 <b>\$ 3,047,758</b>

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On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

## Nawiinginokiima Forest Management Corporation Statement of Operations and Accumulated Surplus

**For the 14 month period ended March 31, 2014**

<b>Revenue</b>	
Administrative fees	\$ 449,742
Forestry Futures Trust funding	1,780,000
Forest renewal activity	605,557
Forest access roads	<u>1,446,042</u>
	<u>4,281,341</u>
 <b>Expenses</b>	
Amortization	7,212
Automotive	19,644
Bank charges	1,910
Board of Directors activities	78,399
Contract services	17,012
Forest certification	120,401
Forest management services	662,681
Human resources development	64,686
Insurance	8,100
Licenses and subscriptions	1,424
Miscellaneous	2,535
Office	33,046
Professional fees	26,425
Public access road maintenance	1,441,129
Public relations	14,821
Wages and benefits	<u>120,454</u>
	<u>2,619,879</u>
 <b>Excess of revenue over expenses and net assets, end of period</b>	 <b>\$ 1,661,462</b>

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## Nawiinginokiima Forest Management Corporation Statement of Cash Flows

**For the period ended March 31, 2014**

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<b>Cash flows from operating activities</b>	
Excess of revenue over expenses	\$ 1,661,462
Item not involving cash:	
Amortization	<u>7,212</u>
	1,668,674
Change in non-cash working capital items:	
Accounts receivable	<u>(2,566,019)</u>
Accounts payable and accrued liabilities	<u>1,386,296</u>
	<u>488,951</u>
<b>Cash flows from capital activities</b>	
Purchase of equipment	<u>(21,636)</u>
<b>Increase in cash during the period, end of period</b>	<b>\$ 467,315</b>

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## Nawiinginokiima Forest Management Corporation Notes to Financial Statements

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March 31, 2014

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### 1. Significant Accounting Policies

**a) 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.

**b) Financial instruments** The Corporation's financial assets and financial liabilities are accounted for as follows:

Cash and cash equivalents consist of cash on hand and bank balances.

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.

Accounts payable and accrued liabilities are recorded at cost.

**c) Equipment** Equipment is recorded at cost less accumulated amortization. Roads are expensed when incurred.

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, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

Amortization is provided for on a straight-line basis as follows:

Computers	3 years
Software	3 years

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## Nawiinginokiima Forest Management Corporation Notes to Financial Statements

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March 31, 2014

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### 1. Significant Accounting Policies (cont'd)

- |  |   |
|--|---|
| <b>d) Revenue Recognition</b>                | Revenue from administrative fees and forest renewal 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.  |
|  | The Authority accounts for contributions, which include government grants, under the deferral method of accounting as follows: Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Grants relating to future periods are deferred and recognized in the subsequent period when the related activity occurs. Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.                                     |
| <b>e) Use of Estimates</b>                   | 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 equipment and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future. |
| <b>f) Contributed Materials and Services</b> | Contributed materials and services which are used in the normal course of the organization'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.   |

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## Nawiinginokiima Forest Management Corporation Notes to Financial Statements

**March 31, 2014**

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### **2. Nature of Business**

The Nawiingiokiima 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.

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### **3. Accounts Receivables**

Forestry Futures Trust	\$ 905,000
Roads program	758,940
Stumpage fees	695,649
Trade	<u>206,430</u>
	<b>\$ 2,566,019</b>

## Nawiinginokiima Forest Management Corporation Notes to Financial Statements

**March 31, 2014**

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**4. Equipment**

	Cost	Accumulated Amortization	Net Book Value
Computers	\$ 8,751	\$ 2,917	\$ 5,834
Software	12,885	4,295	8,590
	<b>\$ 21,636</b>	<b>\$ 7,212</b>	<b>\$ 14,424</b>

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**5. Accounts Payable**

HST payable	\$ 14,948
Stumpage fees	695,649
Trade	661,263
Wages	14,436
	<b>\$ 1,386,296</b>

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**6. Road Maintenance funding**

The Corporation received approximately \$1.45 million relating to a agreement with the Ministry of Natural Resources. The purpose of the agreement is to provide NFMC with reimbursement of road construction and maintenance activities on eligible primary and secondary forest access roads where access to those roads is not limited to the forestry industry.

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**7. Remuneration**

Total remuneration of the Board members of the Corporation was approximately \$29,000 during the 14 month fiscal period.

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## Nawiinginokiima Forest Management Corporation Notes to Financial Statements

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March 31, 2014

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### 8. 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 interest rate or foreign currency risk.

##### **(a) 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 organization is not exposed to significant liquidity risk.

##### **(b) 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. Certain receivables are from government sources and the Organization works to ensure it meets all eligibility criteria in order to qualify to receive credits.

## 5.0 The Path Ahead

Priorities for 2014-15 will be the continued growth of the NFMC and the development of a corporate culture that focuses on creativity, productivity, and efficiency.

An important part of the growth and development strategy is the acquisition of the sustainable forest licenses for the Big Pic, Pic River, Nagagami, and White River SFL's. The management and board will continue to engage the MNRF and/or applicable forest companies to develop an agreement for the assumption of the SFLs. The company's goal is to have the licenses issued/transferred before the end of 2014-15. The focus will be on acquiring the licenses for the Big Pic and Pic River in the first half of 2014-15, followed by Nagagami and White River.

The NFMC's management team will continue to build on the foundational work done by the MNRF and work toward developing the most efficient and effective operations in the region. The NFMC will work with its contractors to develop cost effective silviculture treatments that enhance forest health and productivity. The NFMC will work with harvesting contractors and receiving mills to ensure wood is delivered on time and at competitive prices, as well as working to maximize the value of the forest resource.

In 2014-15, the NFMC will begin the process of preparing FMPs for the Big Pic and Pic River Forests. It is expected that the NFMC will prepare contingency plans for the individual units before completing an amalgamated FMP.

As the NFMC assumes additional responsibilities the process to hire new staff will continue. The management of the NFMC believes their staffs are the Corporation's greatest asset. The NFMC will work to create an environment that encourages each staff member to achieve their full potential by encouraging professional development and growth.

The NFMC will look to broaden the market for its products by working with new entrants. The NFMC is encouraged by the development of the Rentech mill in Wawa and believes that there are opportunities for future growth in the forest products sector.

Finally, one of the NFMC's priority areas for 2014-15 will be the development of economic opportunities for the communities in the NFMC management area, in particular local FNs. As an example, the NFMC is in the process of negotiating a contract that would see full time employment created for the Pic River First Nation.

## Appendix 1-Strategic Direction

### *Strategic Direction*

Members of the Board of Directors and senior staff of the NFMC met on May 5th, 2014 to identify the strategic direction for the Corporation with the focus being on the next 12 to 14 months. The Board of Directors subsequently developed a strategic plan to meet the Agency's objectives during the 2014/15 fiscal year which includes the below long term objectives:

- Developing processes to market, sell and enable access to a predictable and competitively priced supply of Crown forest resources available from the management area to existing commitment holders as well as new consumers;
- Designing operational plan to be flexible to match financial and human resources to actual market demand;
- Developing appropriate harvesting targets including monitoring and tracking processes for comparisons and analysis of actual wood flows against existing commitments and planned harvest volumes to promote optimal and full use of available forest resources;
- Benchmarking current economic benefits provided to communities and FNs and creating strategies to promote future employment and economic benefits;
- Developing an appropriate open market sales program including a process to track and manage market sales information;
- Designing processes to identify opportunities for additional investment in activities that support improvements to the Crown forest asset and training and capacity development for Aboriginal communities;
- Others, as determined by the NFMC.

### **Strategic Direction and Initiatives**

To clarify the long term strategic direction of the NFMC, members of the Board of Directors and senior staff have identified nine initiatives targeted to be completed by June 2015:

1. Acquire SFLs;
2. Complete FSC Certification;
3. Launch Silviculture Program;
4. Establish the office;
5. Initiate the Big Pic FMP;
6. Finalize MOAs;
7. Prepare for and respond to the IFA;
8. Establish governance policy and process; and
9. Play a key role in FNs operations on the NFMC land base.

With these initiatives as a backdrop, members of the Board of Directors and senior staff *project* what "success" would look *like* as of June 2015. Six themes were identified and are outlined below:

#### **1. Industry Success**

Notable success in our relationships with industry, especially as we strive to deliver high quality forest management services at a competitive cost to industry participants. These successes include:

- Memorandum of Agreement documents (MOAs) in place;

- Completed the FSC certification process;
- Maintained the administration fee at \$1.00 and lowered the renewal fee to less than \$5.00 through the silviculture program;
- Built and maintained a respectful relationship with industry; and
- Worked with other wood users across the province to explore how they might participate and partner with the NFMC.

## **2. Community Engagement**

We have built and are sustaining positive relationships with our FNs and municipal communities. These successes include:

- As of June 2015, we have at least three projects underway, preferably two with FNs and a third with another community; and
- At least one FNs group actively operating on the land base.

## **3. Government Support**

We have the support of both the Minister and Ministry staff. These successes include:

- Gaining timely approvals from the Ministry at the district level;
- Having the Big Pic and Pic River SFLs in place; and
- Confirmed the support of Forestry Futures Trust Ontario for our start-up funding and silviculture program.

## **4. Established Office**

Our offices in Marathon are well-established and running smoothly. These successes include:

- The IT challenges (i.e. high-speed internet access) have been addressed; and
- Created a positive working environment in which staff clearly understand their roles and responsibilities and feel supported by management. With this support, staff are handling challenges effectively as they arise.

## **5. Sound Fiscal Policy**

To support the smooth operation of the Corporation:

- Effective fiscal policy and processes in place to deal with accounts receivable, roads funding, and liabilities effectively and efficiently.

## **6. Forest Management Plan Progress**

Finally, significant progress has been made on building a sound FMP for the Big Pic Forest.

- The FMP team is operational, and has completed some FMP consultations; and
- This activity links FNs relationships, industry success, and support from Ministry staff.

### ***Long term Objectives***

While the focus of the session was on securing the foundation of the Corporation over the next year, the Board confirmed the five-year preferred future, ensuring the Corporation focused primarily on:

- being driven by the interests of the community,
- generating a high level of innovation,
- driving economic development in the region, and
- providing effective governance and management of the forests.

The group identified 11 strategic initiatives that should be launched – or extended – to achieve the vision. The initiatives are in the areas of stakeholders, economics, and marketing.

The specific initiatives are:

- |  |   |  |
|--|---|--|
| <b>Stakeholders</b> <ul style="list-style-type: none"> <li>• Engagement Strategy</li> <li>• Talent Management Strategy</li> <li>• Education Strategy</li> <li>• Partnerships in Innovation Strategy</li> </ul> | <b>Economics</b> <ul style="list-style-type: none"> <li>• Economic Development Strategy</li> <li>• First Nation Economic Development Strategy</li> <li>• Maximizing Value from the Forest Strategy</li> <li>• Financial Management and Reinvestment Strategy</li> </ul> | <b>Marketing</b> <ul style="list-style-type: none"> <li>• Wood Marketing Strategy</li> <li>• Brand Strategy</li> <li>• Forest Industry Strategy</li> </ul> |
|--|---|--|

