

NORTHERN ONTARIO HERITAGE FUND CORPORATION
ANNUAL REPORT
2019-2020



Lieutenant Colonel The Honourable Elizabeth Dowdeswell
Lieutenant Governor of the Province of Ontario

May it please Your Honour:

For the information of Your Honour and the Legislative Assembly, I have the privilege of presenting the annual report of the Northern Ontario Heritage Fund Corporation for the fiscal year ending March 31, 2020.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg Rickford". The signature is written in a cursive style with a large initial "G" and "R".

Hon. Greg Rickford
Chair, Northern Ontario Heritage Fund Corporation
Minister of Energy, Northern Development and Mines

Introduction from Greg Rickford, Board Chair

There is no denying that the COVID-19 pandemic has brought profound change to business operations and our everyday lives. As we have relied on the importance of teamwork and community to defeat COVID-19, we are reminded of that same collaboration that is needed as we head into a period of economic recovery. And I am inspired by the collaboration between businesses, communities, and friends and families across the north that have demonstrated our true northern resiliency and determination to get our regional economy back on track.

We know the Northern Ontario Heritage Fund Corporation (NOHFC) will play an important role in the recovery of our northern economy. That is why I am proud we are on track to introduce new and improved NOHFC programs in the coming new year. We have listened to the call of northern business and community leaders, and that is why we have brought new diversity to the NOHFC board and have moved forward with program renewal to support economic development and recovery in every region of Northern Ontario.

Between June 2018 and April 2020, the NOHFC has approved more than \$176 million to 1,224 projects, creating or retaining 3,559 direct jobs.

With revitalized programming, our government, alongside the NOHFC, will continue to deliver a return on these investments that supports businesses, attracts new investment to the region and creates good jobs for the people of Northern Ontario.

I'm proud of the work of the NOHFC and I look forward to the future as we continue to help deliver the prosperity that northerners expect and deserve. Together with our partners, we are sending a clear signal to the world that Northern Ontario is open for business and open for jobs.

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

Greg Rickford
Chair, Northern Ontario Heritage Fund Corporation
Minister of Energy, Northern Development and Mines

Board of Directors as of March 31, 2020

| POSITION | NAME | APPOINTMENT TERM | CITY |
|-----------------|---------------------------|---------------------------|------------------|
| Chair | Rickford, Greg | 29-Jun-2018 - N/A | Keewatin |
| Vice Chair | Sinclair, David | 18-Dec-2018 - 18-Dec-2021 | Kenora |
| Member | Biasucci, Salvatore (Sam) | 29-Aug-2019 – 28-Aug-2021 | Sault Ste. Marie |
| Member | Chirico, Peter | 29-Aug-2019 – 28-Aug-2021 | North Bay |
| Member | Cornell, Kim | 25-Oct-2019 – 24-Oct-2021 | Devlin |
| Member | Fox, Michael | 06-Jun-2019 – 05-Jun-2022 | Thunder Bay |
| Member | Hennessey, Genevieve | 02-Feb-2017 – 21-Aug-2020 | Thunder Bay |
| Member | Marcil, Laurie | 09-Jan-2020 – 08-Jan-2022 | North Bay |
| Member | Mudge, Theresa | 04-Oct-2017 - 03-Oct-2020 | Sault Ste. Marie |
| Member | Slade, Fred | 31-Jan-2019 – 30-Jan-2022 | Sudbury |
| Member | Spinney, Bill | 09-Jan-2020 – 08-Jan-2022 | Nobel |

The Northern Ontario Heritage Fund Corporation (NOHFC)

The NOHFC was established in 1988, with a mandate to promote and stimulate economic development initiatives in Northern Ontario by providing financial assistance to projects that stabilize, diversify and foster the economic growth of the region.

The Northern Ontario Heritage Fund Corporation (NOHFC) is a board governed agency established under the enabling legislation of the *Northern Ontario Heritage Fund Act*. The NOHFC has an appointed Board of Directors, chaired by the Minister of Energy, Northern Development and Mines. NOHFC's objectives are set out in the *Northern Ontario Heritage Fund Act* as follows:

- (a) to advise and make recommendations to the Lieutenant Governor in Council on any matter relating to the growth and diversification of the economy of Northern Ontario;
- (b) to promote and stimulate economic initiatives in Northern Ontario; and
- (c) to commission studies and enter into contracts in connection with the objects set out in clauses (a) and (b) above.

The Corporation provides economic-development funding toward approved projects in the territorial districts of Northern Ontario, namely Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Vision

NOHFC will be a catalyst for key strategic investments to stimulate economic development and diversification in Northern Ontario.

Mission

To partner with communities, not-for-profits, businesses, and entrepreneurs across Northern Ontario to create jobs and strengthen the economy.

Guiding Principles

Alignment with Key Initiatives – The Growth Plan for Northern Ontario (GPNO) provides a coordinated, long-term, and comprehensive approach to support Northern Ontario as a globally-competitive region. NOHFC priorities will support the key elements of the GPNO.

Recognition of Northern Ontario's Unique Circumstances – The programs and initiatives of NOHFC will continue to be an important means of recognizing the unique requirements of Northern Ontario in support of a strong Ontario. The NOHFC will continue to build and enhance its current programs and services with this in mind.

Adaptability – The strategic-planning process is ongoing and provides the NOHFC with a management tool for adapting to change in the future.

Reflective, Flexible, and Forward-Thinking – It is the intent that the NOHFC Board of Directors will review the strategic plan, at minimum, on an annual basis.

Inclusiveness – The NOHFC will continue to develop and deliver its programs and initiatives in a manner that recognizes the needs of the North’s diverse communities including, but not limited to, Indigenous communities and individuals and the North’s other demographic groups.

Strategic Priorities

Innovation, Research and Development, and Commercialization – Support applied research and development projects and initiatives that lead to innovative products and services with commercialization potential.

- Support and encourage partnerships among educational institutions, research organizations, and industry to develop and grow innovative products and industries in Northern Ontario.
- Support the commercialization of ideas and innovation in partnership with northern stakeholders.

Creativity, Productivity and Entrepreneurial Development – Support an environment that promotes creativity, productivity and entrepreneurial development.

- Support collaboration with educational institutions and industry to promote productivity and entrepreneurial development.
- Assist Northern stakeholders to attract and retain a highly skilled and creative workforce.
- Provide assistance to entrepreneurs at various stages of growth.

Partnerships and Collaboration – Maximize opportunities to leverage NOHFC funding through partnerships and collaboration to ensure the success of projects and sustainable economic outcomes.

- Engage leaders in economic development discussions to increase awareness, knowledge and access to NOHFC programs.
- Support projects that demonstrate collaboration and partnership amongst public and private sector organizations in Northern Ontario.
- Work collaboratively with other funding partners to assist in the development and funding of projects that result in job creation and support a growing and sustainable Northern Ontario economy.

Organization Development and Renewal – Through continued improvement of human-resource development and performance measurements, the NOHFC programs will run effectively and efficiently enhancing access and delivery.

- Continue development of information-technology capabilities and enhance existing systems to improve access to NOHFC programs.
- Implement regular, ongoing dialogue between the NOHFC Board and staff to plan and engage in strategic thinking in the new and emerging opportunities and key government initiatives.
- Develop business approaches and best practices that allow staff and program delivery partners to proactively communicate and work with stakeholders to promote and facilitate access to NOHFC programs.
- Provide the tools and training to enable staff and board to fulfill their roles and

responsibilities effectively in an increasingly-demanding environment.

Awareness, Education and Recognition – Develop effective marketing, communication, and outreach tools that increase awareness, understanding and recognition of NOHFC, its programs and processes.

- Develop effective marketing and communications tools that increase awareness and recognition of NOHFC and its programs.
- Develop effective marketing and communications tools to educate targeted clients to improve access to NOHFC programs.

Current NOHFC Programs and Themes:

- **Strategic economic development initiatives that support the growth and sustainability of communities, businesses and industry** – Northern Business Opportunity Program
- **Innovation and productivity to support research and development, commercialization, innovation and productivity initiatives** – Innovation Program
- **Community strategic economic infrastructure** – Strategic Infrastructure Program
- **Economic development capacity enhancement** – Northern Community Capacity-Building Program and Northern Event Partnership Program
- **Attraction and retention of talent** – Northern Ontario Internship Program

NOHFC Performance Measures – Targets and Results

Total Jobs to Be Created/Retained April 1, 2019 – March 31, 2020

| Job Category | Total Jobs Approved |
|--|----------------------------|
| Jobs to be Created | 1,365 |
| Jobs to be Retained | 1,114 |
| Internship Jobs | 645 |
| Jobs to be created as a result of Infrastructure Project Activities | 418 |
| Total | 3,542 |

Five Year Comparison of Jobs to be Created/Retained

| Fiscal Year | To be Created/Retained | Target | To be Created Only |
|--------------------|-------------------------------|---------------|---------------------------|
| 2015-2016 | 3,423 | 3,500 | 1,208 |
| 2016-2017 | 4,184 | 3,500 | 1,499 |
| 2017-2018 | 3,914 | 3,500 | 1,581 |
| 2018-2019 | 2,307 | 3,500 | 1,111 |
| 2019-2020 | 3,542 | 3,000 | 2,010 |

Total Dollars Leveraged April 1, 2019 – March 31, 2020

| Fiscal Year | Actual | Target |
|--------------------|---------------|---------------|
| 2015-2016 | 3.40 | 3 |
| 2016-2017 | 4.42 | 3 |
| 2017-2018 | 4.13 | 3 |
| 2018-2019 | 4.15 | 3 |
| 2019-2020 | 3.91 | 3 |

Five Year Comparison of Projects Approved

| Fiscal Year | Total Projects Approved |
|--------------------|--------------------------------|
| 2015-2016 | 801 |
| 2016-2017 | 836 |
| 2017-2018 | 854 |
| 2018-2019 | 610 |
| 2019-2020 | 887 |

For the 2019-20 fiscal year, NOHFC exceeded its performance target by supporting 887 projects in the north, resulting in 3,542 jobs created.

NOHFC also continued to exceed its performance target for investment leveraged from other funding sources.

During 2019-20, NOHFC reviewed its current funding programs to best align with the government's economic development priorities for Northern Ontario.

NOHFC Financial Performance – Target and Results

Schedule of Revenue, Expenses and Net Investment by The Province of Ontario for the Three Years Ended March 31, 2020

| | Year Ended March 31, 2020 (000's) Budget | Year Ended March 31, 2020 (000's) Audited | Year Ended March 31, 2019 (000's) Audited | Year Ended March 31, 2018 (000's) Audited |
|--|--|---|---|---|
| Revenue | | | | |
| Province of Ontario grant | \$75,000 | \$75,000 | \$100,000 | \$100,000 |
| Interest on cash and cash equivalents (Note 1) | 3,876 | 5,375 | 5,775 | 3,329 |
| Interest on loans receivable (Note 2) | 1,787 | 1,764 | 2,245 | 2,502 |
| Other (Note 3) | - | 1,545 | 1,775 | 849 |
| Total Revenue | 80,663 | 83,684 | 109,795 | 106,680 |
| Expenses | | | | |
| Conditional Contributions (Note 4) | 98,677 | 112,019 | 105,866 | 93,951 |
| Credit losses (Note 5) | 2,858 | 3,637 | 451 | 1,762 |
| Administration: | | | | |
| Salaries, wages and benefits (Note 6) | 2,474 | 2,254 | 2,126 | 2,162 |
| Transportation & communication (Note 7) | 355 | 62 | 108 | 315 |
| Services (Note 8) | 2,351 | 1,317 | 1,419 | 1,691 |
| Management fees (Note 9) | 3,000 | 2,367 | 2,088 | 2,414 |
| Marketing (Note 10) | 500 | 1 | 327 | 490 |
| Supplies and equipment | 50 | 11 | 23 | 37 |
| Amortization of tangible capital assets | - | - | 2 | 3 |
| Total Expenses | 110,265 | 121,668 | 112,410 | 102,825 |
| Excess (deficiency) of revenue over expenses | (29,602) | (37,984) | (2,615) | 3,855 |
| Net investment by the Province of Ontario, beginning of year | | 334,328 | 336,943 | 333,088 |
| Net investment by the Province of Ontario, end of year | | \$296,344 | \$334,328 | \$336,943 |

Analysis of Variances

Note 1 – Interest on cash and cash equivalents was higher than expected due to the continuation of higher interest rates and slower than anticipated cash flow.

Note 2 – Interest earned on loan receivables performed as planned with the decline in the overall loan portfolio.

Note 3 – Other revenue represents prior year provision recoveries and prior year adjustments to conditional contributions.

Note 4 – Conditional contributions were higher than the previous fiscal year and budgeted for in the current fiscal year. This is a result of funds that had been committed in previous fiscal years which did not flow until the current fiscal year.

Note 5 – Credit losses were higher than planned and when compared to the previous fiscal year as a result of the unanticipated additional losses from the COVID-19 pandemic.

Note 6 – Salaries and benefits are less than the current year budget due to in-year vacancies.

Note 7 – Transportation and communication were under budget as a result of the change in the format of the NOHFC Board meetings and the focus on a reduction in spending.

Note 8 – Services were under budget as a result of the Program Renewal timelines and the focus on a reduction in spending.

Note 9 – Management fees were lower than the budget due to the reduction in volume projects.

3-Year Comparison of Revenue and Expenses

| Fiscal Year | Revenue | Expenses | Revenue Over Expenses, (Expenses Over Revenue) |
|-------------|-----------|-----------|---|
| 2017-2018 | \$106,680 | \$102,825 | \$3,855 |
| 2018-2019 | \$109,795 | \$112,410 | (\$2,615) |
| 2019-2020 | \$ 83,684 | \$121,668 | (\$37,984) |

Summary of Administrative Expenses for the Year Ended March 31, 2020

| Expense | Total Spending | Percentage of Spending |
|---|----------------|------------------------|
| Contracted salaries and benefits | 2,254 | 37.5% |
| Transportation and communication | 62 | 1.0% |
| Services | 1,317 | 21.9% |
| Management fees | 2,367 | 39.4% |
| Marketing | 1 | 0.0% |
| Supplies and equipment | 11 | 0.2% |
| Amortization of tangible capital assets | 0 | 0.0% |
| Total | 6,012 | |

3-Year Comparison of Administrative Costs

| Expense | 2017-2018 | 2018-2019 | 2019-2020 |
|---|--------------|--------------|--------------|
| Contracted salaries and benefits | 2,162 | 2,126 | 2,254 |
| Transportation and communication | 315 | 108 | 62 |
| Services | 1,691 | 1,419 | 1,317 |
| Management fees | 2,414 | 2,088 | 2,367 |
| Marketing | 490 | 327 | 1 |
| Supplies and equipment | 37 | 23 | 11 |
| Amortization of tangible capital assets | 3 | 2 | 0 |
| Total | 7,112 | 6,093 | 6,012 |

Financial Statements of

**NORTHERN ONTARIO HERITAGE
FUND CORPORATION**

For the year ended March 31, 2020

Northern Ontario Heritage Fund Corporation Year ended March 31, 2020

Responsibility for Financial Reporting

The accompanying financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC) have been prepared in accordance with Canadian public sector accounting standards, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 26, 2020.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of members who are not employees/officers of NOHFC generally meets periodically with management and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



Melanie Muncaster
Executive Director
NOHFC



Jocelyn Ouellet, CPA, CMA
Senior Corporate Controller
NOHFC



INDEPENDENT AUDITOR'S REPORT

To the Northern Ontario Heritage Fund Corporation

Opinion

I have audited the financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NOHFC as at March 31, 2020 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the NOHFC in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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, 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 NOHFC'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 NOHFC either intends to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

I 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 I identify during my audit.

Toronto, Ontario
June 26, 2020



Susan Klein, CPA, CA, LPA
Assistant Auditor General

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Financial Position

March 31, 2020, with comparative information for 2019

| (\$000s) | 2020 | 2019 |
|---|-------------------|-------------------|
| Financial Assets | | |
| Cash and cash equivalents (note 3) | \$ 204,259 | \$ 306,970 |
| Accrued interest receivable | 784 | 1,901 |
| Loans receivable (note 4) | 28,750 | 36,416 |
| Due from Province (note 5) | 75,000 | - |
| | <u>308,793</u> | <u>345,287</u> |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities (note 6) | 12,449 | 10,959 |
| Net financial assets | <u>296,344</u> | <u>334,328</u> |
| Non-Financial Assets | | |
| Tangible capital assets (note 7) | - | - |
| Accumulated Surplus | <u>\$ 296,344</u> | <u>\$ 334,328</u> |

Commitments (note 9)

Significant event – COVID-19 (note 12)

The accompanying notes are an integral part of these statements.

On behalf of the Board:



Co-Chair

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Operations

Year ended March 31, 2020, with comparative information for 2019

| (\$000s) | Budget 2020 | 2020 | 2019 |
|---|----------------|-------------|------------|
| Revenue: | | | |
| Province of Ontario grant | \$ 75,000 | \$ 75,000 | \$ 100,000 |
| Interest on cash and cash equivalents | 3,876 | 5,375 | 5,775 |
| Interest on loans receivable | 1,787 | 1,764 | 2,245 |
| Recoveries | - | 1,545 | 1,775 |
| | 80,663 | 83,684 | 109,795 |
| Expenses: | | | |
| Conditional contributions | 98,677 | 112,019 | 105,866 |
| Credit losses (note 4) | 2,858 | 3,637 | 451 |
| Administration (note 8) | 8,730 | 6,012 | 6,093 |
| | 110,265 | 121,668 | 112,410 |
| Annual Deficit | \$ (29,602) | \$ (37,984) | \$ (2,615) |
| Accumulated Surplus, beginning of year | | 334,328 | 336,943 |
| Accumulated Surplus, end of year | | \$ 296,344 | \$ 334,328 |

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2020, with comparative information for 2019

| (\$000s) | Budget 2020 | 2020 | 2019 |
|--|----------------|-------------|------------|
| Annual Deficit | \$ (29,602) | \$ (37,984) | \$ (2,615) |
| Amortization of capital assets | - | - | 2 |
| (Decrease) in net financial assets | (29,602) | (37,984) | (2,613) |
| Net financial assets beginning of year | | 334,328 | 336,941 |
| Net financial assets, end of year | | \$ 296,344 | \$ 334,328 |

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows

Year ended March 31, 2020 with comparative information for 2019

| (\$000s) | 2020 | 2019 |
|--|------------------|------------------|
| Operating activities: | | |
| Cash received from: | | |
| The Province for | | |
| lending and financial assistance activities | \$ - | \$ 100,000 |
| Interest received on loans receivable | 1,785 | 2,204 |
| Interest received on cash and cash equivalents | 6,430 | 5,194 |
| Recoveries | 260 | 2 |
| | <u>8,475</u> | <u>107,400</u> |
| Cash paid for: | | |
| Conditional contributions | (111,044) | (98,878) |
| Administration costs | (5,498) | (6,464) |
| | <u>(116,542)</u> | <u>(105,342)</u> |
| Cash provided by (applied to) operating transactions | <u>(108,067)</u> | <u>2,058</u> |
| Investing activities: | | |
| Loan disbursements | (6,215) | (10,893) |
| Loan repayments | 11,571 | 16,588 |
| Cash provided by investing transactions | <u>5,356</u> | <u>5,695</u> |
| Net (decrease)/increase in cash and cash equivalents | (102,711) | 7,753 |
| Cash and cash equivalents, beginning of year | 306,970 | 299,217 |
| Cash and cash equivalents, end of year | \$ 204,259 | \$ 306,970 |

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

1. Nature of the organization:

The Northern Ontario Heritage Fund Corporation (the "Corporation") was established, without share capital, on June 1, 1988 under the Northern Ontario Heritage Fund Act. The purpose of the Corporation is to promote infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, and term loans. As an Ontario Crown agency, the Corporation is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

The Corporation partners with communities, businesses and entrepreneurs across Northern Ontario to create jobs and strengthen the Northern economy. The Corporation delivers five targeted programs as follows: Strategic Economic Infrastructure Program, Northern Community Capacity Building Program, Northern Innovation Program, Northern Business Opportunity Program, and Northern Ontario Internship Program.

2. Significant accounting policies:

The significant accounting policies used to prepare these financial statements are summarized below.

(a) Basis of accounting:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

(b) Revenue recognition - Provincial government funding transfer:

The Province of Ontario contributes funds to provide capital for the Corporation's lending and financial assistance activities.

Transfers from the Provincial government are recognized as revenue in the financial statements when the transfer is authorized and any eligibility criteria are met, except to the extent that conditions by the government give rise to an obligation that meets the definition of a liability. Funds received from the Province are recognized as deferred revenue when these conditions give rise to a liability. Funds received from the Province are recognized in the statement of operations as the liabilities are settled.

(c) Cash and cash equivalents:

Cash and cash equivalents consist primarily of funds on deposit in chartered banks and short-term investments on deposit with the Ontario Financing Authority, a related party.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

2. Significant accounting policies (continued):

(d) Financial instruments:

The Corporation initially recognizes the measurement of cash and cash equivalents, loans receivable, accounts payable and accrued liabilities at cost and they are subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs are added to the carrying value for financial instruments measured at cost or amortized cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

(e) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition or betterment of the asset.

The cost, less residual value of the tangible capital asset, is amortized on a straight line basis over its estimated useful life as follows:

| | Years |
|------------|-------|
| Automotive | 7 |

(f) Revenue recognition – interest income:

Interest income is recognized when earned on the accrual basis of accounting. Interest revenue on loans receivable is recognized in an amount estimated to be recoverable. Interest income ceases to be recognized when the collectability of either the principal or interest is not reasonably assured.

(g) Loans receivable:

Loans receivable are recorded at cost less any provision for loss allowance amount. Provision for loss allowances are used to reflect collectability and risk of loss, therefore loans receivable are recognized at the lower of cost and the net recoverable value.

Changes in the valuation of provision for loss allowances are reflected in the Statement of Operations as credit loss expense. The provision for loss allowances on loans consists of provisions on specific loans and a general provision on the remaining loans and is deducted from loans receivable. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management. Subsequent to initial recognition, the provision for loss allowances may be reduced if the loan recovery is subsequently assessed as likely.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

2. Significant accounting policies (continued):

Factors used to estimate impairment included but are not limited to:

- Collection experience
- Financial performance of the borrower
- Project success
- Economic conditions
- Repayment deferral or restructure

Based on the individual assessment of each loan, the loan is not considered impaired if the collectability of the outstanding balance is considered in to be in good standing. A general provision for credit loss is applied to these balances to further reduce the credit risk exposure to the Corporation. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management.

Loan amounts written off and written down in the year and changes in provisions, are charged to credit losses in the Statement of Operations. Monies received/recovered during the year from loans provided for in a prior year are recorded as recoveries on the Statement of Operations.

(h) Conditional contributions and forgivable loans:

When the organization is the transferor, government transfers are recognized as an expense in the statement of operations when they are authorized, and all eligibility criteria have been met by the recipient.

(i) Use of estimates:

Preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated. The infectious coronavirus (“COVID-19”) pandemic has added to the Corporation’s measurement uncertainty primarily due to a reduction of available information with which to make significant assumptions related to critical estimates as compared to those estimates reported at March 31, 2019. Significant estimates include the provision for credit losses and the loan discount which takes into account payment history, credit worthiness, and risk of the industry that the borrower operates in.

The provision for credit losses, see Note 4, is subject to measurement uncertainty due to the credit risk associated with borrower’s ability to repay their loans.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

3. Cash and cash equivalents:

The Northern Ontario Heritage Fund Act restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

Cash and cash equivalents consist of:

| (\$000s) | 2020 | 2019 |
|------------------|-------------------|-------------------|
| Cash | \$ 97,896 | \$ 101,460 |
| Cash equivalents | 106,363 | 205,510 |
| | <u>\$ 204,259</u> | <u>\$ 306,970</u> |

Cash equivalents consist of Treasury Bills (maturing within 365 days) which yielded on average 1.75% (2019 - 2.10%). All Treasury Bills are redeemable on demand.

4. Loans receivable:

The purpose of the Corporation is to promote infrastructure improvements and economic development opportunities in Northern Ontario. Loans are provided as a means of financial assistance to various organizations to promote and stimulate economic initiatives in Northern Ontario.

Loans receivable balances consist of loans in good standing and loans in arrears net of provision for credit losses and loan discounts. Loans in arrears are loans in which repayments have not been made or have been restructured.

| 2020 (\$000s) | Loans in Good Standing | Loans in Arrears | Total |
|-----------------------------|------------------------|------------------|------------------|
| Loan Balance | \$ 45,552 | \$ 10,894 | \$ 56,446 |
| Provision for credit Losses | (16,906) | (10,660) | (27,566) |
| Loan Discounts | (130) | - | (130) |
| Net Loan Balance | \$ 28,516 | \$ 234 | \$ 28,750 |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

4. Loans receivable (continued):

| 2019 (\$000s) | Loans in Good Standing | Loans in Arrears | Total |
|-----------------------------|-------------------------------|-------------------------|------------------|
| Loan Balance | \$ 51,543 | \$ 11,978 | \$ 63,521 |
| Provision for credit Losses | (15,543) | (11,372) | (26,915) |
| Loan Discounts | (190) | - | (190) |
| Net Loan Balance | \$ 35,810 | \$ 606 | \$ 36,416 |

Generally, loans bear fixed interest rates ranging from 0% to 7.5% and are fully repayable within 3 to 20 years from the date disbursed.

The evaluated measured risk helps determine the security requested. Security is determined on an individual basis. Loans approved with a value greater than \$100,000 require security.

An assessment was made of the collectability of all loans as a result of the economic impacts of COVID-19. A provision was provided for loans identified to be at greater risk of collectability where the sector was directly impacted as a result of the Government of Ontario's emergency order to close or where a specific request to the Corporation for relief measures was requested. As a result, there was an increase in the provision for loans in good standing in the current year of \$2,185,000 compared to the prior year.

The changes in the provision for credit losses are as follows:

| (\$000s) | 2020 | 2019 |
|---------------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 26,915 | \$ 29,792 |
| Loans written off in the year | (1,719) | (1,555) |
| Changes in provisions on active loans | 3,655 | 451 |
| Recovery of prior year provision | (1,285) | (1,773) |
| Balance, end of year | \$ 27,566 | \$ 26,915 |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

4. Loans receivable (continued):

Credit losses shown in the Statement of Operations are as follows:

| (\$000s) | 2020 | 2019 |
|--|----------|----------|
| Loans written off in the year | \$ 1,719 | \$ 1,555 |
| Less: amounts provided for in previous years | (1,719) | (1,555) |
| Credit losses | – | – |
| Changes in provision on active loans | 3,655 | 451 |
| Discount adjustment | (18) | – |
| Net increase/(decrease) loan loss provision | 3,637 | 451 |
| Credit losses | \$ 3,637 | \$ 451 |

The change in the loan discount balances are as follows:

| (\$000s) | 2020 | 2019 |
|--|--------|--------|
| Balance, beginning of year | \$ 190 | \$ 236 |
| Amount of loan discount written down | (18) | – |
| Amount amortized to interest on loans receivable | (42) | (46) |
| Balance, end of year | \$ 130 | \$ 190 |

5. Due from Province:

Other receivable balance is the transfer payment amount owing to the Corporation by the Ministry of Energy, Northern Development and Mines where conditions have been met by the Corporation to be eligible for the receipt of the funding, payable to the Corporation when cash balances are required.

| (\$000s) | 2020 | 2019 |
|--------------------------------------|-----------|-----------|
| Balance, beginning of year | \$ – | \$ – |
| Approved transfer payment allocation | 75,000 | 100,000 |
| Amounts received | – | (100,000) |
| Balance, end of year | \$ 75,000 | \$ – |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

6. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities relate largely to normal business transactions with recipients, in accordance with conditional grant agreements and intercompany balance between the Ministry of Energy, Northern Development and Mines (ENDM) and the Corporation. Amounts payable are due within the first quarter of the following fiscal year.

| (\$000s) | 2020 | 2019 |
|---------------------|-----------|-----------|
| Due to ENDM | \$ 1,160 | \$ 646 |
| Accrued liabilities | 11,288 | 10,313 |
| Total | \$ 12,449 | \$ 10,959 |

7. Tangible capital assets:

| (\$000s) | 2020 | 2019 |
|-----------------------------|-------|-------|
| Cost | | |
| Opening | \$ 26 | \$ 26 |
| Additions | – | – |
| Closing | 26 | 26 |
| Accumulated amortization: | | |
| Opening | 26 | 24 |
| Amortization | – | 2 |
| Closing | 26 | 26 |
| Net book value, end of year | \$ – | \$ – |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

8. Administration expenses:

Details of administration expenses in the year are as follows:

| (\$000s) | Budget | | |
|---|----------|----------|----------|
| | 2020 | 2020 | 2019 |
| Salaries and benefits | \$ 2,474 | \$ 2,254 | \$ 2,126 |
| Transportation and communications | 355 | 62 | 108 |
| Services | 2,351 | 1,317 | 1,419 |
| Management fees | 3,000 | 2,367 | 2,088 |
| Marketing | 500 | 1 | 327 |
| Supplies and equipment | 50 | 11 | 23 |
| Amortization on tangible capital assets | – | – | 2 |
| | \$ 8,730 | \$ 6,012 | \$ 6,093 |

The Province provides pension benefits for all of the Corporation's permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. The costs of the pension plans, and other post-retirement non-pension benefits provided to eligible staff are paid by the Province and are not included in these financial statements.

9. Commitments:

Funds committed but not disbursed as at March 31, 2020 as eligibility criteria has not yet been met by recipients are \$220,984,697 (2019 – \$247,311,930).

10. Financial instruments:

The main risks that the Corporation's financial instruments are exposed to are credit risk, liquidity risk, and market risk.

(a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Corporation is exposed to credit risk through its loans receivable. The Corporation provides credit to its loan portfolio clients in the normal course of operations. To mitigate the risk, the Corporation screens loan applicants, registers security on the loans and maintains provisions for contingent credit losses. The Corporation is also exposed to credit risk through the other receivable amount due from the Province through the Ministry of Energy, Northern Development and Mines. However, the risk is considered low as the

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

10. Financial instruments (continued):

balance owing is from the Province. The maximum credit risk is the carrying value of the loans receivable and other receivable balances. Refer to notes 4 and 5 for further details.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to liquidity risk through its accounts payable and accrued liabilities. The Corporation's exposure to liquidity risk is low as cash and cash equivalents exceed the current commitments. The Corporation mitigates this risk by monitoring cash activities and expected outflows. Accounts payable and accrued liabilities are due within the first quarter of the following fiscal year. Refer to note 6 for further details.

(c) Market risk:

Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation does not conduct any transactions that are denominated in foreign currency. The Corporation's loans receivable bear fixed interest rates. The Corporation's cash and cash equivalents balance includes Treasury Bills where market value is close to cost, so market risk is low.

There have not been any changes from the prior year in the Corporation's exposure to liquidity risk or market risk or the policies, procedures and methods it uses to manage and measure those risks. The Corporation's exposure to credit risk has increased as a result of the impacts of COVID-19 on its loans receivable as outlined in note 4.

11. Related Party Transactions:

Administrative expenses, excluding amortization and bank charges, as presented in note 8, are provided by the Ministry of Energy, Northern Development and Mines and charged at cost.

Accounts payable and accrued liabilities includes amounts due to the Ministry of Energy, Northern Development and Mines at fiscal year end for administrative expenses (see note 6).

Due from Province includes amounts due to the Corporation from the Ministry of Energy, Northern Development and Mines at fiscal year end (see note 5).

Cash equivalents are managed on behalf of the Corporation by the Ontario Financing Authority under an Investment Management Agreement (see note 3).

The Statement of Operations includes \$8,410,080 (2019 - \$13,794,663) of conditional contributions made to other provincial government organizations that form part of the Government reporting Entity for the Province of Ontario.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2020

12. Significant Events – COVID-19:

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. As of year-end, the impact of COVID-19 in Canada and on the global economy increased significantly. As a result of the pandemic and the direct impact it has had on the Corporation's clients, a temporary loan deferral and interest relief program has been offered to all loan recipients to help offset the financial crisis clients are faced with. Management anticipates a temporary decline of interest revenue in the beginning of the new fiscal year as a result of this deferral.

Management is actively monitoring the effects on its financial condition, liquidity, operations, and workforce. As this time, the full potential impact of COVID-19 on the organization is unknown. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time.