

Westwind

WESTWIND FOREST STEWARDSHIP INC.

ANNUAL
REPORT
2001/02

Orchestrating ecologically sustainable forest
management on the diverse and intensively
used French/Severn Forest....

Message from the Chair

On behalf of the Board of Directors of Westwind Forest Stewardship Inc., I am pleased to endorse this Annual Report for the year ending March 31, 2002.

Westwind reached a milestone in it's history in February of this year, when it received the FSC Certification certificate for the Crown land which encompasses the area covered by our Sustainable Forest License.

Additional funding was awarded the corporation from the Richard Ivey Foundation. This has enabled Westwind to hire under contract, an experienced employee to assist in moving the certification to the next stage and helping other interested parties and First Nations. So too they can gain from our experience.

As Chair of the Board, I wish to thank the Richard Ivey Foundation for their continued support. It would not have been possible for us to have accomplished what we did without them.

Many challenges face the Board of Westwind and the Forest Operators in the coming year. We shall remain vigilant, take a conservative approach, monitor the financial statements with care, while keeping an eye on the ever changing free trade disputes.

Sincerely



WILFRED L. COSBY

Chair

Board of Directors



Westwind's Board of Directors at the FSC Certificate Spring 2002.

From left to right; Ken Veitch, Gerald Kroes, Wilf Cosby, Art Shannon, John Bolus, Frank May, Chuck Wright.

Westwind Board of Directors 2001/02

Community Directors

Wilf Cosby, Chair, Port Loring

John Bolus, Secretary/ Treasurer, Port Carling

Ken Veitch, Bracebridge

Frank May, South River

Forest Industry

Gerald Kroes, Tembec Inc.

Chuck Wright, Domtar

Art Shannon, Independent Forest operators

Westwind Staff



*Westwind's Staff at the FSC Certificate Spring 2002.
From left to right; Marty Martelle, Gloria Marshall, Barry Davidson, Larry Jardine, Tom Bryson, Ken Webb, Mike Henry, Steve Munro..*

Westwind Staff

Steve Munro,	General Manager	
Barry Davidson, R.P.F,	Management Forester	Marty Martelle, R.P.F GIS Forester, MITIG
Mike Henry, R.P.F.,	Operations Forester	Gary Radey
Ken Webb,	Senior Forest Technician	Jeff Rhiness
Tom Bryson,	Senior Forest technician	Tim Bryson
Larry Jardine,	Senior Forest Technician	Denis Nadon
Gloria Marshall,	Office Administrator	Peter Wassermann

Forest Audits

Westwind participated in two separate forest audits in 2001/02, Both audits required a significant level of staff time for preparation, the audit and follow up.

Independent Forest Audit (IFA)

KBM Forestry Consultants Inc. undertook an independent audit of forest management on the French/Severn Forest (360) in 2001. This audit report presents the results of the audit of forest management activities on the Crown land portion of the French-Severn Forest (FSF) for the period April 1st, 1996 to March 31st, 2001.

Much of the responsibility for implementation of direct actions to address the recommendations and suggestions will rest with Westwind Forest Stewardship; however some of the recommendations and suggestions will rest with MNR as well.

The audit team concluded that the French/Severn Forest is being managed sustainably and recommended that the Minister extend the term of the Sustainable Forest License for a further five years.

FSC Audit

On Feb 14, 2002, the French/Severn Forest was certified under the Forest Stewardship Council certification system. It is the first largest public forest to be FSC certified and encompasses 855,000 hectares.

“FSC certification is a milestone for us,” said Wilf Cosby Chair of Westwind. “After taking over management just four years ago, we have third party confirmation of the merit of our management plan. The audit that led to the certification spells out some of the issues that e still have to deal with, but this recognition means we are on the right track.”

Steve Munro, General Manager of Westwind explains that the immediate benefit of this certification is the third party verification of responsible management. “People need to know that we are managing the forest well,” Munro says “and through certification we can tell people in our communities that we have been through this really tough review and made the grade. We now need to seize this opportunity to showcase our community forest and acknowledge the support of our partners.”



Forest Management

Renewal & Tending

Tree marking is considered the most important Silvicultural activity practiced on the forest as 3469 hectares were marked by certified tree markers. It is worthy of noting 2001/02 was the first year Westwind hired a tree marking crew as contract staff.

Stand improvement in tolerant hardwood stands continues and operators are paid to fell the umerchantible stems. Polewood thinning, as well as felling low quality stems in hardwood and pine shelterwood stands are largely funded by the Forestry Futures Fund.

Most site preparation work occurs in the white pine shelterwood stands, but for 2001/02 levels of mechanical and chemical site preparation were quite low. Inaccessible areas, reduced pine harvesting, dry summer and wet fall conditions, contributed to the low numbers.

Tree Planting

No artificial seeding took place in 2001. The majority of planting 233,000 seedlings, occurred in the Pwus forest unit and was focused on the Roy's License area in Mowat Twp with 344 ha of the 436ha total being planted there. The second largest project was the planting of 74ha of previously identified Hdus and SelBB forest units to conifer species (Pw/Sw/Sr/He) as part of a conversion project primarily funded by Forestry Futures.

Tending

1706 ha received tending work with the majority occurring on backlog areas in the Pwus forest unit and funded primarily under a Forestry Futures project. A variety of treatments were utilized from aerial application of herbicides, ABS, and stem specific treatments such as basal bark application or brush saw-sproutless chemical applicator treatments. No brush saw only treatments took place in 2001. This is consistent with Westwind's contention that brush saw tending treatments in many stands in this management unit are not very effective, based on years of experience with motor manual release without herbicide.

The largest portion of backlog pine shelterwood areas treated was accomplished through the application of aerial herbicides by Standard Ag Helicopter Services. Either glyphosphate (where aspen was the predominant competitor) or triclopyr (where maple was a main competitor) was used. The second largest treatment method on the backlog pine shelterwood areas occurred through the use of air blast sprayers.

The remaining hectares were treated through either the use of stem specific basal bark treatments or brush-saw/sproutless application. Westwind is utilizing basal bark applications of triclopyr and brushsaws with the sproutless applicator to apply glyphosate or triclopyr (depending on growing season status). These are stem specific treatments that avoid off-target application and reduces rates of application. While most of this work has been intended for the Wabigoong Bemjiwang Association of First Nations this year, we enlisted the services of Brinkman & Associates and Wilderness Reforestation to meet our targets.

Forest Operations

Approximately 2621 hectares were harvested and 3050 hectares depleted this year, roughly the same levels as the first year of the plan. This, however, only represents 6% of the 5 year Allowable Harvest Area or 28% of the yearly allowable cut.

Some contributing factors are listed below, some of which are chronic conditions in this management unit.

- Drought conditions during the summer resulted in restricted operating hours due to fire danger, especially in the pine.
- Heavy rains in the fall limited created wet conditions that slowed or halted operations.
- Milder winter weather conditions hampered hauling in some areas or prevented some operators from firming up access for winter harvest operations.
- The softwood lumber tariff issue with the United States affected markets and lumber prices.
- Low quality stands continue to be shunned by operators as they are not deemed to be financially viable at this time. .
- Access continues to be a significant obstacle to attaining higher utilization levels of planned area.

No natural area losses (fire, insect, disease) were reported in this year.

Large areas of tending have also taken place and will continue to improve the overall quality of the French/Severn Forest by improving the growing space of AGS trees and releasing desirable regeneration from competing, less valuable species.

Wood Utilization

The total volume of approximately 101,000 cubic metres is only 2/3rds of the level from 2000 and roughly equal to the volume harvesting in 1999.

Tembec's level of pulpwood utilization has been impressive over the last couple of years as Tembec had secured a pulpwood market in Erie Pennsylvania, although this mill is now closed. However, on February 14, 2002, Westwind Forest Stewardship became certified as a "Well Managed Forest" under the Forest Stewardship Council's (FSC) forest certification program. In addition, Tembec's Temiskaming Mill now has Chain of Custody under FSC which should allow the company to access specialty markets requiring FSC certified pulp. Westwind is encouraging other producers to seek Chain of Custody under FSC to take advantage of potential markets for FSC certified fibre.

Sawlog utilization levels are rarely a problem from any of the operators although there are isolated cases of missed trees in the cutover. Note, however, that the profitability and usability of some of the smaller sized grade 2 sawlogs is marginal and often these logs do not go into sawlog products.

It is anticipated that FSC certification and the associated FSC certified fibre now available to operators for harvest in the French/Severn forest will open up new markets and opportunities for the forest industry.

Revenues and Expenditures

The following table details by species group how much revenue was generated for the Crown (through minimum crown stumpage plus residual values), for the Forest Renewal Trust Fund (from which Westwind pays its Silvicultural expenses) and the Forestry Futures Trust Fund (which is managed by a committee for a number of purposes including enhanced silviculture project).

Species	Harvest Volume	Crown Revenues	Forest Renewal Trust	Forestry Futures
White/Red Pine Grade 1	19,817	\$ 167,489.7	\$ 208,473.7	\$ 9,512.1
White/ Red Pine Grade 2	10,276	\$ 541,117.4	\$ 10,355.4	\$ 4,873.2
Conifer	2,802	\$ 11,478.5	\$ 15,387.5	\$ 1,338.2
Hemlock/Cedar	883	\$ 4,915	\$ 1,243.9	\$ 424.1
Poplar	5,404	\$ 18,245.7	\$ 87.6	\$ 2,371.6
Hardwood Grade 1	20,394	\$ 427,300.7	\$ 149,370.3	\$ 9,789.3
Hardwood Grade 2	41,516	\$ 27,372.7	\$ 695.3	\$ 19,381.5
Totals	101,092	\$ 710,919.80	\$ 385,613.70	\$ 47,690.00

Healthy Forests, Healthy Business

- Over 2,400 jobs are supported by the forest industry in the French/Severn Forest.
- 1, 165 direct jobs—12 percent of regional goods producing sector employment.
- 338 indirect regional jobs
- 920 indirect provincial jobs
- Logging and primary wood manufacturing jobs four times provincial average
- Forest industry output of \$ 131 million annually

Source : *Healthy Forest, Healthy Business*

WESTWIND FOREST STEWARDSHIP INC.

FINANCIAL STATEMENTS

MARCH 31, 2002

AUDITOR'S REPORT

To the Members of
WESTWIND FOREST STEWARDSHIP INC.

I have audited the balance sheet of WESTWIND FOREST STEWARDSHIP INC. as at March 31, 2002, and the statements of revenue, expenditures and surplus, changes in net assets and changes in financial position, for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at March 31, 2002 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles.



**CHARLES A. DUROCHER
CHARTERED ACCOUNTANT**

Parry Sound, Ontario
June 30, 2002

BALANCE SHEET
AS AT MARCH 31, 2002

ASSETS	2002	2001
CURRENT ASSETS		
Cash	\$ 512,618	\$ 584,465
Accounts receivable (Note 3)	258,853	159,676
GST receivable	24,200	16,358
	795,671	760,499
CAPITAL ASSETS (Note 4)	40,814	32,261
	\$ 836,485	\$ 792,760
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 257,654	\$ 29,924
Stewardship funds (Note 5)	15,627	13,875
Deferred contributions:		
MNR Partnership Projects (Note 6)	226,831	286,755
Ontario tree marking committee account (Note 7)	102,756	83,074
	602,868	413,628
NET ASSETS		
Net assets invested in capital assets	40,814	32,261
Net assets internally restricted (Note 8)	122,494	145,000
Unrestricted net assets	70,309	201,871
	233,617	379,132
	\$ 836,485	\$ 792,760

APPROVED ON BEHALF OF THE MEMBERS:

Wilf L. Cosby Chair



John Bolus Secretary/Treasurer



**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2002**

	<u>Invested in Capital Assets</u>	<u>Unrestricted</u>	<u>Internally Restricted</u>	<u>2002 Total</u>	<u>2001 Total</u>
Balance beginning of year	\$ 32,261	\$ 201,871	\$ 145,000	\$ 379,132	\$ 247,223
Excess of revenue over expenses	\$(10,613)	(134,902)	-	(145,515)	131,909
Invested in capital assets	19,166	(19,166)	-	-	-
Internally restricted Note 8	-	22,506	(22,506)	-	-
	\$ 40,814	\$ 70,309	\$ 122,494	\$ 233,617	\$ 379,132

**STATEMENT OF REVENUE, EXPENDITURES AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 2002**

	2002	2001
OPERATING REVENUE		
Funding		
Renewal trust	\$ 1,456,026	\$ 955,726
Forestry futures	-	210,394
Ivey foundation	-	151,470
Other		
Levies	377,696	375,499
Services	15,057	20,151
Conferences	16,820	37,046
Other	77,845	59,390
	1,943,444	1,809,676
OPERATING EXPENSES		
Staff	476,487	380,677
Vehicle	72,722	54,709
Supplies & Services	68,054	47,052
Facilities	16,800	16,719
Annual planning	13,080	28,329
Database management	19,862	31,899
Compliance	4,161	97
Ivey expenses	125,889	125,479
Forest inventory	39,426	27,006
Smartwood expenses	15,287	8,833
Other operational	217,746	18,295
Forestry futures	426,303	185,950
Silviculture expenses	582,529	741,990
Depreciation	10,613	10,732
	2,088,959	1,677,767
SURPLUS (DEFICIENCY) FOR THE YEAR	\$ (145,515)	\$ 131,909

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 2002

	2002	2001
OPERATING ACTIVITIES		
Working capital from operations		
Surplus (deficiency)	\$ (145,515)	\$ 131,909
Add : non working capital charges (credits)		
Depreciation	10,613	10,732
	(134,902)	142,641
Net change in non-cash working capital balances from operations*	82,221	186,920
	(52,681)	329,561
FINANCING ACTIVITIES		
INVESTING ACTIVITIES		
Additions to capital assets	(19,166)	(2,948)
	(19,166)	(2,948)
INCREASE (DECREASE) IN CASH	(71,847)	326,613
CASH, beginning of year	584,465	257,852
CASH, end of year	\$ 512,618	\$ 584,465

* Consisting of changes in accounts receivable, GST receivable, accounts payable and accrued liabilities and stewardship funds payable.

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2002

1. NATURE OF ORGANIZATION

The organization is a non-profit corporation that provides for the ecologically sustainable management of the French/Severn Forest. For income tax purposes the organization is classed as a non-profit organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Capital Assets

Capital assets are recorded at cost. Depreciation is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Computer	- 30% declining balance
Equipment	- 20% declining balance
Vehicles	- 30% declining balance

(b) Revenue Recognition - Contributions

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognised as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognised as revenue when received or receivable.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

Royal Trust - forestry futures and renewal	\$ 230,144
Others	28,709
Total	\$ 258,853

4. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	Net 2002	Net 2001
Computer	\$ 41,207	\$ 23,570	\$ 17,637	\$ 12,861
Equipment	33,834	13,806	20,028	14,902
Vehicles	9,180	6,031	3,149	4,498
	\$ 84,221	\$ 43,407	\$ 40,814	\$ 32,261

5. STEWARDSHIP FUNDS

The organization is holding funds in trust for the Parry Sound - Muskoka Stewardship Network.

6. MNR PARTNERSHIP PROJECTS

Westwind has entered into an agreement with the Minister of Natural Resources for the Province of Ontario ("MNR") whereby Westwind has agreed to perform work for the MNR. At March 31, 2002 funds in the amount of \$226,831 were on hand relating to projects to be completed in the future.

7. ONTARIO TREE MARKING COMMITTEE ACCOUNT

Westwind has entered into an agreement with the Ontario Tree Marking Committee ("OTMC") whereby Westwind has agreed to perform tree marking courses for the OTMC. At March 31, 2002 funds in the amount of \$102,756 were on hand relating to tree marking courses to be delivered in the future.

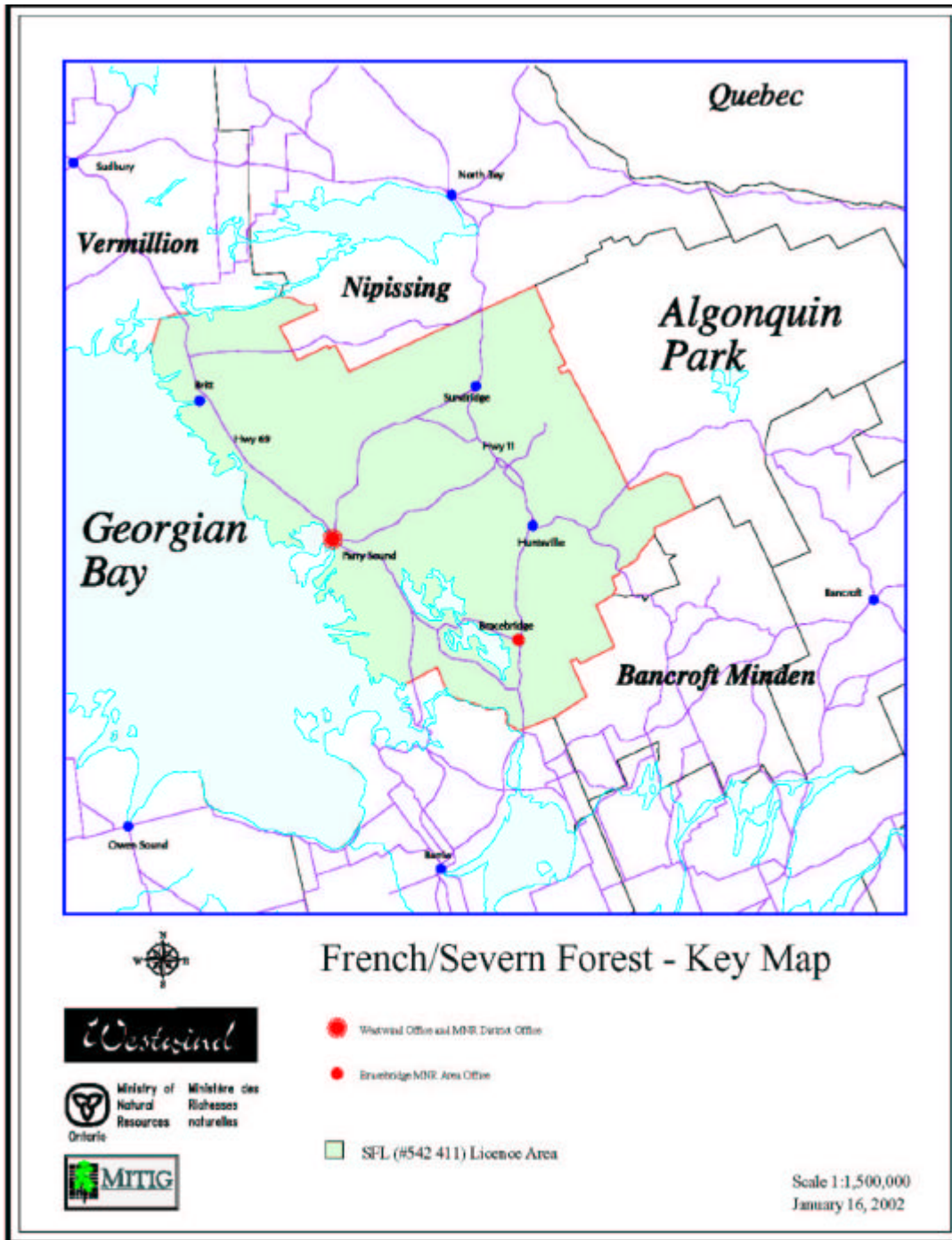
8. INTERNALLY RESTRICTED FUNDS

Westwind's board of directors internally restricted \$30,000 of unrestricted net assets to be held for forest management plan ("FMP") costs to be incurred commencing in the 2003 year-end. Funds amounting to \$52,506 were expended during the year. Management estimates that the next FMP will cost approximately \$500,000. The total funds restricted to date re the FMP are \$97,494.

In the 2000 year end the board of directors internally restricted \$25,000 of unrestricted net assets to be held for future costs relating to a forest regeneration survey and road global positioning system mapping.

9. COMMITMENT

The organization has entered into an office lease agreement for 1 year at an annual rental of \$17,074.



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