

Westwind

WESTWIND FOREST STEWARDSHIP INC.

ANNUAL
REPORT
2002

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 2002 Annual Report for the year ending March 31, 2003

The Westwind Board of Directors continue to travel the Certification Highway that it embarked on in 2003. Westwind has committed to assisting others in anyway that would help them in obtaining their goal of achieving certification. We have found this a rewarding experience this past year

The Board of Westwind has expanded from seven to eight members with the addition of a First Nation Representative. Through normal attrition, we have had a change of two Directors from the forestry sector and we look forward to a well rounded and informed board.

The Richard Ivey Foundation have continued to support Westwind with their financial support, which has allowed our Certification Coordinator to work full time on promoting FSC and Chain of Custody (COC) throughout the French/Severn Forest.

Westwind continues to keep focused on our main job of silviculture, harvesting and our Forest Operators. We have begun the Forest Management Plan (FMP) process and beginning in April 2004, we start the next five years of putting this plan into practice.

We shall stay vigilant on such matters as the softwood lumber dispute, government policies that may affect us, and monitor our financial status on a day to day basis



Sincerely

Wilfred L. Cosby
Chair

Board of Directors 2002

Westwind Board of Directors

Community Directors

Wilf Cosby, Chair, Port Loring

John Bolus, Secretary/ Treasurer, Port Carling

Ken Veitch, Bracebridge

Frank May, South River

Forest Industry

Marc Bouthillier Tembec Inc.

Chuck Wright, Domtar

Art Shannon, Independent Forest operators

Advisors

Tom Clark, Certification

Joyce Tabobondung, First Nations

Westwind Staff

Steve Munro, General Manager

Barry Davidson, R.P.F, Management Forester

Mike Henry, R.P.F., Operations Forester

Ken Webb, Senior Forest Technician

Tom Bryson, Senior Forest technician

Larry Jardine, Senior Forest Technician

Gloria Marshall, Office Administrator

Earl Holley Certification Coordinator

Marty Martelle, R.P.F GIS Forester, MITIG

Silviculture Staff

Gary Radey

Jeff Rhiness

Tim Bryson

Denis Nadon

Peter Wassermann

Roy McKinnon

Krista Livsey

Forest Management

Harvesting

A significant level of harvest occurred in 2002 compared to previous years. Weather was a major factor due to the absence of extreme fire danger weather in the summer, a dry fall and an early cold winter that extended late in the season. As well, agreements between operators, primarily with Tembec, resulted in additional area being harvested.

5266 ha was harvested and 6049 ha depleted this year, roughly double the levels as the first year of the plan. This represents 11% of the 5 year Allowable Harvest Area or 57% of the yearly allowable cut. To date, 13853 ha have been harvested, representing 30% of the 5 year allowable harvest area.

Despite the better than normal weather conditions and significant increase in harvest for 2002, overall lower than projected harvest levels are being realized under this plan as has been historically the case in this management unit. Contributing factors, some of which are chronic conditions in this management unit include:

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. It is expected that the utilization levels of these forest units will not increase dramatically in subsequent years. Access continues to be a significant obstacle to attaining higher utilization levels of planned area. This is due to some areas being remote, relying on an extensive winter road system across wet areas, and some areas being isolated from road systems by private land for which permission to cross is often difficult or impossible.; and Historically high rainfall levels in the fall typically creates wet conditions that slow or halt operations; Other SFLs in the Province reduced their renewal rates on pine thus resulting in some operators with Licensee's elsewhere to concentrate harvest efforts outside of the French/Severn forest.

Wood Utilization

The total volume harvested of approximately 207,000 harvested in 2002 is very significant for the management unit. This level is approximately double the volume cut in 1999 and 2001 and 25% higher than the volume cut in 2000. The volume cut in 2002 is approximately 60% of the average annual volume of 342,142 m³ projected in the 1999-2004 FMP (FMP – 20 Forecast of Harvest Volume).

On February 14, 2002, Westwind Forest Stewardship became certified as a “Well Managed Forest” under the Forest Stewardship Council’s (FSC) forest certification program. Since that time, companies have sought certification of their mills under FSC's Chain of Custody certification as a means to access specialty markets requiring FSC certified products.

Tembec’s level of pulpwood utilization has been impressive over the last couple of years and this trend should continue as Tembec’s Temiskaming Mill has Chain of Custody under FSC. Other companies with Chain of Custody certification that relied on fibre from the French Severn forest included Tembec Huntsville and Mattawa mills for sawlogs, Muskoka Timber Mills for sawlogs, Domtar Cornwall for pulp and Columbia forest products for veneer. Westwind continues to encourage 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.

Issues & Future Trends

Operators choosing to harvest in this management unit, access to markets and better than average weather conditions that extended the harvest season, resulted in an exceptional level of harvesting compared to previous years.

While an excellent year in terms of harvest level, poor quality stands and lack of viable, profitable markets for pulp still continues to account for why the annual allowable cut is not fully realized. While some companies are cutting in blocks that are in their second improvement cut in tolerant hardwoods, higher volumes of quality material are not yet being realized. While this is not surprising, it is discouraging to some companies. Although the stands are being improved, the first cuts realized many large UGS (unacceptable growing stock) trees that did provide high volumes of sawlogs. Many of the AGS (acceptable growing stock) trees and remaining UGS trees have not yet attained the sizes that will produce large volumes in the second selection cuts.

However, at the same time, lower harvest levels do not necessarily mean a negative impact on sustainability. Hemlock, for example, is long lived and older stands are currently providing tremendous habitat value. In addition, red and white pine stands that have not had a seeding cut will continue to be available for harvest at a later date with little impact on the overall quality of these stands.

For the areas that were cut, FMP objectives such as increasing conifer levels on the landscape are being achieved through projects such as stand conversion in hardwood shelterwood forest units by planting stands to white pine, red & white spruce.

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.

Harvesting activity continues to be focused in the tolerant hardwood selection stands in the eastern portion of the management unit and on the white pine shelterwood stands in the western portion of the management unit. This is a reflection of traditional harvesting priorities in a sawlog driven forest economy.

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. With its partners, Westwind continues to look for additional markets for FSC certified fibre and promote FSC certification. Note that in addition to the mills noted previously that have obtained Chain of Custody, in 2003, Quality Hardwoods in Powassan obtained Chain of Custody certification.

Revenues and Expenditures 2002

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	49,393	\$ 239,268	\$ 543,318	\$ 23,708
White/ Red Pine Grade 2	27,486	\$ 48,897	\$ 39,383	\$ 12,603
Conifer	5,154	\$ 17,926	\$ 30,920	\$ 2,474
Hemlock/Cedar	3,315	\$ 11,626	\$ 6,624	\$ 1,590
Poplar	22,191	\$ 75,592	\$ 10,175	\$ 9,768
Hardwood Grade 1	30,063	\$ 557,372	\$ 239,712	\$ 14,378
Hardwood Grade 2	69,651	\$ 48,004	\$ 33,253	\$ 31,921
Totals	207,252	\$ 998,686	\$ 903,385	\$ 96,441

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

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, 2003, 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, 2003 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, 2003

BALANCE SHEET
AS AT MARCH 31, 2003

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash	\$382,786	\$ 512,618
Accounts receivable (Note 3)	256,708	258,853
GST receivable	21,558	24,200
	661,052	795,671
CAPITAL ASSETS (Note 4)	44,573	40,814
	\$705,625	\$ 836,485
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$178,838	\$ 257,654
Stewardship funds (Note 5)	6,243	15,627
Deferred contributions:		
MNR Partnership Projects (Note 6)	249,418	226,831
Ontario tree marking committee account (Note 7)	104,291	102,756
	538,790	602,868
NET ASSETS		
Net assets invested in capital assets	44,573	40,814
Net assets internally restricted (Note 8)	53,502	122,494
Unrestricted net assets	68,760	70,309
	166,835	233,617
	\$705,625	\$ 836,485
APPROVED ON BEHALF OF THE MEMBERS:		
	Director	
	Director	

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2003

	<u>Invested in Capital Assets</u>	<u>Unrestricted</u>	<u>Internally Restricted</u>	<u>2003 Total</u>	<u>2002 Total</u>
Balance beginning of year	\$ 40,814	\$ 70,309	\$122,494	\$ 233,617	\$ 379,132
Excess (shortfall) of revenue over expenses	(12,402)	(54,380)	-	(66,782)	(145,515)
Invested in capital assets	16,161	(16,161)	-	-	-
Internally restricted Note 8	-	68,992	(68,992)	-	-
\$	44,573	\$ 68,760	\$ 53,502	\$166,835	\$ 233,617

STATEMENT OF REVENUE, EXPENDITURES AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
OPERATING REVENUE		
Funding		
Renewal trust	\$1,145,427	\$ 1,456,026
Forestry futures	450,876	-
Ivey foundation	89,100	-
Other		
Levies	378,699	377,696
Services	6,167	15,057
Conferences	34,044	24,820
Living legacy	104,565	-
Other	31,701	69,845
	2,240,579	1,943,444
OPERATING EXPENSES		
Staff	468,713	476,487
Vehicle	68,072	72,722
Supplies & Services	80,130	84,854
FSC standards	66,998	-
Annual planning	68,282	32,942
Compliance	4,022	4,161
Ivey expenses	7,898	125,889
Forest inventory	-	39,426
Smartwood expenses	-	15,287
Other operational	473,949	217,746
Forestry futures	446,031	426,303
Silviculture expenses	610,864	582,529
Depreciation	12,402	10,613
	2,307,361	2,088,959
SURPLUS (DEFICIENCY) FOR THE YEAR	\$(66,782)	\$ (145,515)

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
OPERATING ACTIVITIES		
Working capital from operations		
Surplus (deficiency)	\$(66,782)	\$ (145,515)
Add : non working capital charges (credits)		
Depreciation	12,402	10,613
	(54,380)	(134,902)
Net change in non- cash working capital balances from operations*	(59,291)	82,221
	(113,671)	(52,681)
FINANCING ACTIVITIES		
	-	-
INVESTING ACTIVITIES		
Additions to capital assets	(16,161)	(19,166)
	(16,161)	(19,166)
INCREASE (DECREASE) IN CASH	(129,832)	(71,847)
CASH, beginning of year	512,618	584,465
CASH, end of year	\$382,786	\$ 512,618

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

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

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:

	2003	2002
Royal Trust - forestry futures and renewal	\$244,498	\$ 230,144
Others	12,210	28,709
Total	\$ 256,708	\$ 258,853

4. CAPITAL ASSETS

	<u>Accumulated</u>		<u>Net</u>		<u>Net</u>
	<u>Cost</u>	<u>Amortization</u>	<u>2003</u>		<u>2002</u>
Computer	\$ 52,103	\$ 30,495	\$ 21,608	\$	17,637
Equipment	39,099	18,338	20,761		20,028
Vehicles	9,180	6,976	2,204		3,149
	\$	100,382	\$ 44,573	\$	40,814

5. STEWARDSHIP FUNDS

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

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2003

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, 2003 funds in the amount of \$249,418 were on hand relating to projects to be completed in the future.

7. ONTARIO TREE MARKING COMMITTEE ACCOUNT

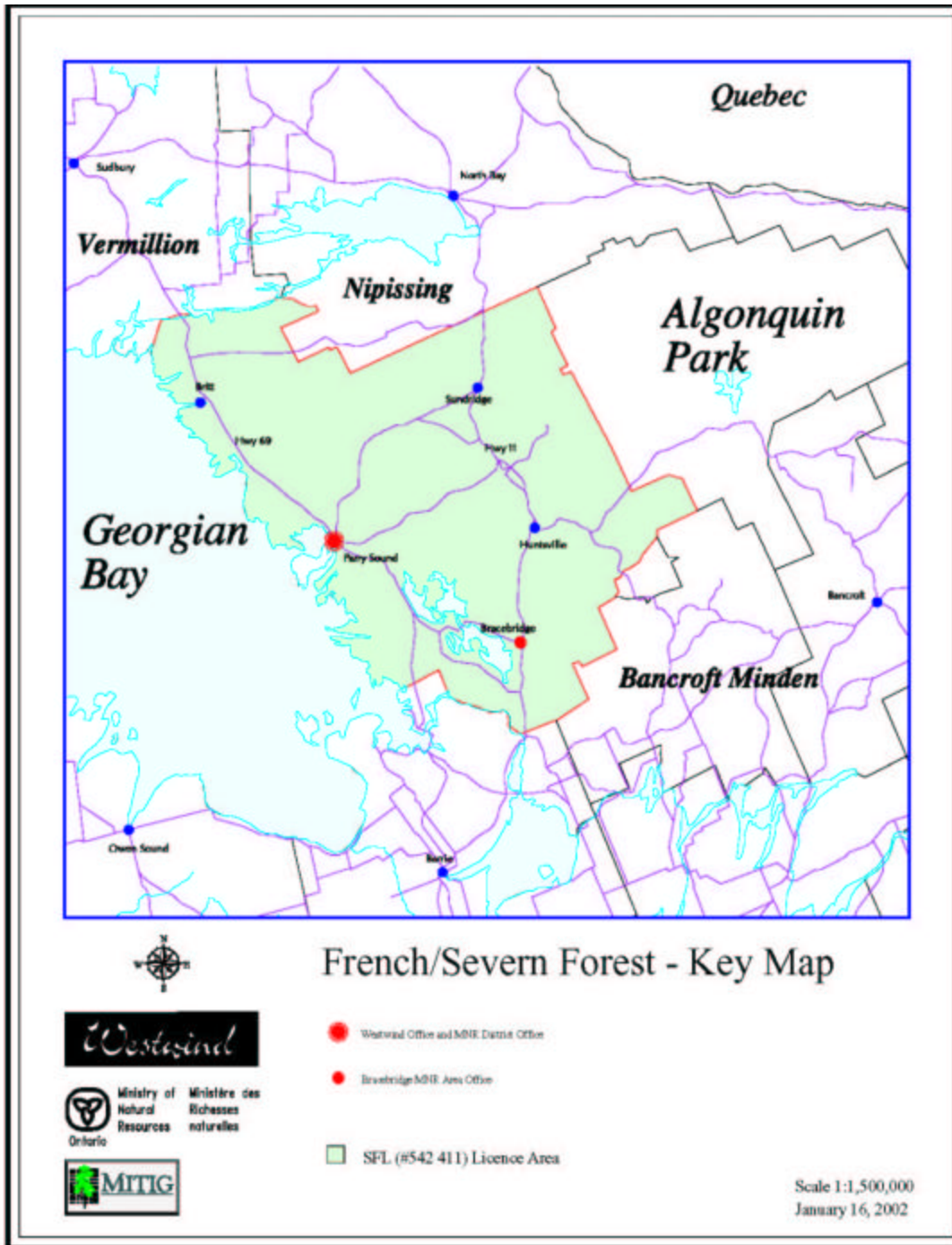
Westwind has entered into an agreement with the Ontario Tree Marking Committee ("OTMC") whereby Westwind has agreed to perform tree marking courses for the OTMC. At March 31, 2003 funds in the amount of \$104,291 were on hand relating to tree marking courses to be delivered in the future.

8. INTERNALLY RESTRICTED FUNDS

Funds amounting to \$68,992 were expended during the year relating to the forest management plan ("FMP") and the forest regeneration survey. The reserve balance at the end of the year, \$53,502, relates to the FMP.

9. COMMITMENT

The organization has entered into an office lease agreement for 1 year at an annual rental of \$25,191.



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