

## 2.2 Executive Summary

### 1. Background

Baffin Fisheries (*BF, BFC, or Baffin Fisheries Coalition*) is the leading commercial fishing enterprise in Nunavut. BFC and its wholly owned operating subsidiary, Niqitaq Fisheries Ltd., are 100% Inuit owned and managed, with three 100% Inuit-owned fishing vessels (two factory freezer trawlers and one factory freezer gillnetter), and one new 80m stern trawler under construction. Baffin Fisheries/Niqitaq Fisheries Ltd. is jointly owned by five Hunters and Trappers Associations in the Qikiqtani region of Nunavut: Mayukalik, Mittimatalik, Nangmoutaq, Amaruq, and Pangnirtung. Each HTA owns 20% of the Company and BFC also owns a minority share in Pangnirtung Fisheries Ltd. BFC harvests wild, sustainable, cold-water shrimp and turbot from the cold ocean waters adjacent to Nunavut, and markets its premium, flash frozen turbot and shrimp, and cooked and frozen shrimp, around the world.

The Company's mission is to maximize benefits and ensure sustainability of fisheries resources for Nunavut. Our vision is to be the leading producer of premium wild cold-water seafood.

The Company's mission will be achieved by sustainably managing and harvesting Nunavut's fisheries resources and increasing the number of Inuit beneficiaries working in management positions, and at sea. Profits from sustainable activities will be used to generate additional economic activity in Nunavut communities, and to support economic independence for Hunters and Trappers Associations through increasing royalty payments. Growth will be achieved by vertically integrating the Company to include all aspects of vessel management, sales & marketing, and training support, and by developing new business opportunities, such as a stand-alone seafood marketing and sales company.

### 2. Harvesting Activity

#### **Greenland Halibut**

In 2022, Baffin Fisheries harvested 8,876 tonnes of turbot from areas 0A and 0B. BFC received DFO allocations totaling 7,056 tonnes, including 1,815 tonnes in 0B and 5,241 tonnes in 0A. Baffin Fisheries harvested more turbot than allocated by purchasing quota from other allocation holders. BFC, through a partnership agreement with Cumberland Sound Fisheries Ltd., purchased a total of 2,171 tonnes of turbot; 958 tonnes in 0A and 1,213 tonnes in 0B. BFC also purchased a total of 222 tonnes from Arctic Fishery Alliance; 200 tonnes in 0A and 22 tonnes in 0B. During the year, BFC entered into turbot purchase-swap agreements with OCI, Labrador Fishermen's Union Shrimp Company Ltd., and Arctic Fisheries Alliance. A quantity of turbot was sold to LFUSCL in exchange for the purchase of a larger quantity of shrimp. BFC also transferred to Qikiqtaaluk Fisheries Corporation a total of 200 tonnes in 0A for a royalty payment. Baffin Fisheries is committed to offering any surplus allocation to Nunavut fishing enterprises as per the 2019 allocation Policy, and to maximizing Inuit shareholder value by negotiating quota swaps for access to winter quota, when Nunavut waters are ice-covered and inaccessible. Baffin Fisheries harvested 97% of its allocated and purchased turbot quota during 2022. In addition to the turbot

harvest mentioned above, BFC harvested another 169 tonnes of turbot in the OB competitive fishery.

BFC's turbot quota was reduced 10% in F2023 due to DFO's failure to conduct its research surveys for four years, and its subsequent uncertainty about the stock.

### **Shrimp**

In 2022 BFC harvested a total of 4,788 tonnes of northern shrimp from Nunavut West (Ungava Bay), Davis Straight West, and Nunavut East, plus 2,837 tonnes from southern areas SFA 5 and SFA 6.

During the year, BFC purchased and sold Northern shrimp in various swaps and trades which allow the Company to fish nearly year-round and maximize the use of its vessels. BF entered into shrimp swap/purchase agreements with Newfound Resources Ltd. (Makavik), M.V. Osprey Ltd. and entered into an agreement with Clearwater Seafood to operate on the Company's license in Ungava Bay.

### *3. Vessel Operations*

BFC's season consisted of the Inuksuk I completing 4.5 turbot trips and 4.5 shrimp trips. Full vessel utilization was offset by a 25-day shutdown due to an unexpected winch drum failure. The Sivulliq completed 7 turbot and 6 shrimp trips and no days of down time; all repairs and maintenance were completed during turn around and planned refit. Trawler landings took place in Bay Roberts, NL, and Nuuk, Greenland. The Arluk II completed 9 turbot trips, 3 in OB and 6 in OA, and endured no delays due to ice conditions or mechanical breakdowns.

Inuksuk I underwent a major winch overhaul on both winch systems. Unfortunately, these repairs could not be completed in Greenland and the vessel sailed to Iceland to have the work completed. Major work was also completed on the Deutz and Baudouin auxiliary generators.

Sivulliq underwent a minor repair and upgrade work on the shrimp cookers, winches, plate freezers, boiler, install a ballast water treatment system, and other inspections/repairs to meet class inspection requirements, and reduce risk of future equipment breakdown.

To further reduce the risk of unplanned maintenance in its aging fleet, Baffin Fisheries engaged an independent vessel maintenance consulting firm to conduct a full review of all vessel maintenance programs and procedures, including refits and turnarounds. After wages and fuel, maintenance is the largest operating cost, and the most important variable in successful harvests. The review and predictive maintenance plan was introduced during the year. Included in the plan is the development of consistent Vessel Maintenance Systems (VMS) software across the fleet.

Baffin Fisheries believes that efficiency cannot be achieved at the expense of safety. The Company has conducted an independent safety audit of all vessels and is introducing policy changes and procedure changes to further improve safety in the coming year. BF has also begun development of a digital Safety Management System (SMS), which can be incorporated into the VMS.

Baffin Fisheries saves time and money landing vessels in Greenland for part of the fishing season. However, several issues are developing which may limit the company's ability to land in Greenland: potential new offloading requirements currently unavailable in Greenland, reduced offloading capacity, increased shipping costs to Denmark, and unavailability of commercial flights and charter flights. BFC is carefully reviewing its options.

#### *4. New Vessel*

Baffin Fisheries remains committed to delivery of a new 80m multi-species stern trawler to replace aging vessels in the fleet, increase benefits and employment in Nunavut, and reduce our environmental impact. Based on its strong balance sheet, positive financial results, and successful governance and management, BFC was able to commit \$21 million in cash payments, satisfying all downpayments required. BFC will not have to borrow any funds until the vessel is delivered in 2024.

Several milestones were reached in 2023: completion of drawings, erection of the entire steel hull and superstructure, installation of main engine, gearbox, main generator, auxiliary engines, compressors, completion of piping, completion of ship's bridge. All of this was monitored and inspected by BFC's team in Turkey. In addition to the physical construction of an 8-story high vessel and onboard seafood production plant, the new vessel involves the careful management of contracts valued at over \$72 million.

Baffin Fisheries has dedicated staff in Turkey, and also oversees contracts for: (1) engineering consultants providing oversight, (2) a Turkish sub-contractor providing inspection and support in Turkey, (3) the Danish Factory manufacturer (\$10M contract), (4) downpayment guarantees between Spanish, Turkish, and Canadian banks, (5) new fishing gear to be sourced, negotiated, and approved, (6) electronics components contract, and (7) freezer system contract. In addition, BFC is working closely with more than a dozen major equipment manufacturers, for machinery such as main engine, gearbox, winches, cranes, etc.

Baffin fisheries has hedged much of its borrowing requirements against interest rate hikes and currency fluctuations. As a result, financing costs of the vessel will be lower than they would have been if the project was just starting.

Baffin Fisheries also secured a fixed-price contract for the vessel, early in the last cycle of high inflation. As a result, the vessel will be delivered as much as \$23M cheaper than if the project was started today. However, severe inflation over the past two years has meant an increase in management/oversight costs and any change orders made as construction is underway. Some changes are inevitable, therefore, design modifications and oversight are expected to be about \$3M higher than expected, for a net savings of about \$20M if the vessel was started today.

#### *5. Financial Results*

Financial results for fiscal year 2022/2023 exceeded the Board's budget. Top line revenue from all sources surpassed the budgeted amount for the year. Before-tax income outperformed the budget, and net income exceeded expectations. The enterprise maintains a constant focus on efficient operations and cost minimization to enhance profitability. However, it is anticipated that profitability will decline in 2023 due to factors such as inflation, substantial increases in fuel costs, rising interest rates, higher maintenance expenses related to an aging fleet, significantly increased crew travel expenses, quota reductions, and various other challenges.

## *6. Economic Development*

Outside of core fishing operations, inshore fisheries development remains the Company's top priority, and plans are in place for fishing activity to take place in both Pond Inlet and Clyde River in 2024. The Company officially completed the new HTA building and snowmobile repair garage in Clyde River and held the grand opening in July, with more than 200 attending. Subsequent to the year end, BFC hired a new Inshore Fisheries Manager in the community.

Baffin Fisheries now has a team of four high performing employees in Nunavut, who are leading the development of inshore fisheries projects in Clyde River and Pond Inlet, as well as recruitment, crewing management, DFO licencing / administration, HTA support, maintenance of buildings, and development of new economic opportunities. The team, with support from Operations, is planning ice fishing activity for 2024 and beyond. Commitment to the Inshore Fisheries Plan remains on track, and another successful year of development is expected this year.

Baffin Fisheries has moved ahead with its plan to repair community freezers, install monitoring systems, and train local personnel. A dedicated freezer-repair contractor has been engaged to complete all planned tasks. To date, eight Nunavummiut have received mentorship guidance on basic freezer maintenance and monitoring. The contractor visited three communities and succeeded in getting the freezers running. A second trip is planned to complete additional work to keep freezers running, and to provide additional mentoring.

## *7. Crewing*

During the year, BFC implemented a Nunavut Living Allowance for crew members to help recruit more Nunavummiut, and to help offset the high cost of living in Nunavut. The allowance is \$3,000 per trip for trawlers, and \$1,500 per trip for gillnetter. Baffin Fisheries is the first company to create a northern living allowance for crew members. The cost to the Company will be approximately \$600,000 to the bottom line annually.

BFC employed a total of 78 Inuit employees during the year, up 6 from the previous year. Fifty-eight of those positions are on our vessels for a total of 49% Inuit employment on BF vessels up from 38% in 2021. Baffin Fisheries has yet to fully recover from the loss of workers during the covid pandemic.

Inuit employment for all vessels increased during 2022. Fishing Trip 6,7 & 8, for the Sivulliq had 69% Inuit crew (11 out of 16 eligible crew positions), while the Inuksuk trip 3 had 77% and Inuksuk trip 4 had 73%. BFC crewing staff is working hard to make 75% Inuit crew the new standard aboard our vessels, up from the traditional 50% which was considered a success in the past.

Recruitment, skills training, development, and mentorship continues for higher vessel positions such as Second Mate, Deck Boss, and Assistant Factory Boss.

## 8. Outlook

Baffin Fisheries remains committed to meeting its five-year goal of increasing profitability and HTA royalty payments, developing inshore fisheries activity, growing its sales and marketing function, reducing our environmental footprint, improving vessel maintenance, and increasing benefits to Nunavut, including Inuit employment.

During the year, BFC's Board of Directors launched a recruitment program to hire a new Senior Executive to help run the Company from Nunavut and ensure Inuit culture is pervasive throughout the organization. The Board created an HR Committee dedicated to hiring the Executive, among other new positions in Nunavut as soon as possible.

Baffin Fisheries continues to work closely with NFMTTC, and to expand its recruitment team in Nunavut. However, it expects continued challenges attracting Nunavummiut to its offshore vessels and sees development of inshore fishing activities and jobs – which allow workers to stay in their communities – as a desirable long-term goal.

During the year, Baffin Fisheries created a new seafood marketing company, Baffin Seafood, based in Denmark. The new Company will market Baffin Fisheries seafood, and seafood products from other fish harvesters, deep into retail markets in Europe and Asia. This new company will perform the work previously carried out by a group of European and Asian seafood marketing companies, which typically extract 3-5% of top line value from revenues. Baffin Fisheries is the first Nunavut fishing company to create a seafood marketing company. Through this process, Baffin Fisheries expects to deliver an incremental \$1M to the bottom line annually. Through the new company, Baffin Fisheries will also explore development of mixed seafood products to be sold to consumers.

**Figure 1 - Table of Benefits**

Goal	Progress Towards Goal	Future Commitments
Maximize efficiency to increase funding for	<ul style="list-style-type: none"> <li>• New vessel delivery expected mid-2024</li> <li>• All required downpayments raised.</li> <li>• Comprehensive maintenance and refit program in place to reduce maintenance costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce annual maintenance costs.</li> <li>• Increase royalty payments to HTAs</li> <li>• Improved sales and marketing performance</li> </ul>

delivery of benefits	<ul style="list-style-type: none"> <li>• Interest rate and currency instruments in place to reduce risk.</li> </ul>	
Maximize value from fishing operations	<ul style="list-style-type: none"> <li>• Baffin Fisheries harvests the vast majority of its total allocation with its 100% Inuit-owned vessels and its own employees.</li> <li>• Completed another successful harvest year, harvesting nearly 100% of turbot allocation and executing several shrimp quota swaps to maximize fleet utilization and profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Harvest of 100% of economically viable allocations</li> <li>• Maximize use of BF fleet in harvesting</li> <li>• Increase BF fleet harvest and harvesting efficiency with new vessel</li> <li>• Maximize asset utilization through strategic quota swaps</li> </ul>
Improve Work Experience	<ul style="list-style-type: none"> <li>• New Northern Living Allowance for crew members in Nunavut</li> <li>• Top quartile remuneration and benefits</li> <li>• Comprehensive Safety Audit of fleet</li> <li>• Modernizing fleet</li> <li>• Increased training and orientation</li> <li>• Deployment of charter aircraft where possible to ease crew travel burden.</li> </ul>	<ul style="list-style-type: none"> <li>• Mentorship program underway, and continued investment in industry wide NFMTCC mentorship program</li> <li>• Implementation of integrated Safety Management System (SMS) Industry-leading vessel comforts and ergonomics being designed for new vessel</li> </ul>
Increase Nunavut Employment	<ul style="list-style-type: none"> <li>• Recruitment program underway for Nunavut crew</li> <li>• Working closely with NFMTCC to increase training capacity and effectiveness</li> <li>• New position in Clyde River with emphasis on Inshore Fisheries Development</li> <li>• Hiring new Senior Executive and support position in Iqaluit</li> </ul>	<ul style="list-style-type: none"> <li>• Two new Inuit second mate positions maintained.</li> <li>• New mentorship positions to be created.</li> <li>• Developing an executive management certification program for Nunavut employees</li> <li>• Will fill two new positions in Iqaluit</li> </ul>
Improve Governance	<ul style="list-style-type: none"> <li>• New Monthly Board Updates in reader-friendly, newsletter style</li> <li>• Board Governance training sessions</li> <li>• Updated Governance Manual and strengthened Audit &amp; Finance committees.</li> <li>• Created new Board HR Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Option to publish monthly newsletters online.</li> <li>• New Inuk Senior Executive position</li> <li>• Greater Board involvement in HR and crewing matters</li> <li>• Updates to Board Governance Manuals</li> </ul>
Develop Economic Activity in Nunavut Communities	<ul style="list-style-type: none"> <li>• New building in Clyde River 100% complete; Inshore Fisheries Manager in place</li> <li>• Refurbished Kimmirut HTA freezer, repaired HTA freezers in Pond Inlet, Clyde River</li> <li>• Supported infrastructure and materials for continued ice fishing activity in Pond Inlet and Clyde River</li> <li>• Supported purchase and delivery of HTA lumber and materials sealift orders for the year.</li> <li>• Pursuing partnership with other Nunavut Fishing companies to develop dedicated supply run for HTA materials and frozen food products, such as shrimp.</li> </ul>	<ul style="list-style-type: none"> <li>• More inshore turbot Ice fishing activity planned for 2024.</li> <li>• Commitment to deliver larger quantities of shrimp, frozen food, and hunter/trapper supplies to communities.</li> <li>• Increased support to HTAs.</li> <li>• Continued pursuit of new business opportunities based on community need.</li> </ul>

<p>Ensure Sustainability</p>	<ul style="list-style-type: none"> <li>• Full participation and investment in all NFA environmental initiatives and significant financial contribution to all projects.</li> <li>• Invested in R&amp;D, such as new technology such as Greenland Shark excluder gear and low-impact trawl bottom gear.</li> <li>• Invested in upgraded and strengthened gillnets, ensuring AIS locator sensors on 100% of nets to ensure zero loss.</li> <li>• Continued compliance with all stewardship laws and guidelines; compliance with relevant legislation, ecosystem protection requirements, and responsible fishing requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment to development of Greenland Shark Excluder</li> <li>• Reviewing, and where possible procuring, new technologies to reduce the environmental footprint of new vessel.</li> <li>• Seeking partnership to co-develop new opportunities and species which allow increased activity in winter season.</li> </ul>