

2.2 Executive Summary

1. Background

Baffin Fisheries (*BF, BFC, or Baffin Fisheries Coalition*) is the leading commercial fishing enterprise in Nunavut. BF 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). Baffin Fisheries/Niqitaq Fisheries Ltd. is jointly owned by five Hunters and Trappers Associations in the Qikiqtani region of Nunavut: Mayukalik, Mittimatalik, Nangmautaq, 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. 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.

2. Harvesting Activity

Greenland Halibut

In 2021, Baffin Fisheries harvested 9,879 tonnes of turbot from areas 0A and 0B. BFC received DFO allocations totaling 7,141 tonnes, including 1,578 tonnes in 0B and 5,563 tonnes in 0A. Baffin Fisheries harvested more turbot than allocated by purchasing quota from other allocation holders. BFC, through a purchasing agreement with Cumberland Sound Fisheries Ltd., purchased a total of 2,557 tonnes of turbot; 1,428 tonnes in 0A and 1,130 tonnes in 0B. BFC also purchased a total of 365 tonnes from Arctic Fishery Alliance; 280 tonnes in 0A and 85 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 0B 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 100% of its allocated and purchased turbot quota during 2021. In addition to the turbot harvest mentioned above BFC harvested another 155 tonnes of turbot in the 0B competitive fishery.

Shrimp

In 2021 BFC harvested a total of 5,657 tonnes of northern shrimp from Nunavut West (Ungava Bay), Davis Straight West, and Nunavut East, plus 1,718 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., M.V. Osprey Ltd. and entered into an agreement with Clearwater Seafood to operate on the Company's licence in Ungava Bay.

3. Vessel Operations

BFC's season consisted of the Inuksuk I completing 4.5 turbot trips and 3.5 shrimp trips. Full vessel utilization was offset by a 20-day shutdown due to an unexpected winch drum failure. The Sivulliq completed 6.5 turbot and 2.5 shrimp trips and 25 days of down time for stern ramp and gear box repairs. 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 a 14-day delay due to heavy ice conditions prior to the start of the OA fishing season.

Inuksuk I underwent a major refit in drydock in Frederikshavn, Denmark, to meet Class inspection requirements and extend the life of the vessel by up to 10 years. Work included major steel work on hull, complete rebuild of wave gate and trawl deck, hull coating, engine and fuel system work, propulsion system work, installation/certification of ballast water treatment system, and inspection/repair of all major systems.

Sivulliq underwent a minor refit to repair and upgrade gearbox, 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 will be implemented in the current 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 ordered a review of all safety procedures and high-risk operations on its vessels and will conduct a fully independent safety audit of all vessels in the coming year. BF has also begun development of an electronic Safety Management System (SMS), which can be incorporated into the VMS.

New Anti-fouling Technology

Baffin Fisheries invested approximately \$200,000 on a new, experimental graphene-based hull coating designed to improve fuel efficiency to reduce greenhouse gas emissions, and environmental pollution. The coating was applied to the FV Inuksuk I in Denmark during last year's refit. This new technology is being developed by Graphite Innovative Technologies (GIT) of Nova Scotia. GIT's technology offers a system of low-friction, biocide-free coatings which can significantly improve fuel consumption and therefore greenhouse gas emissions.

4. New Vessel

Baffin Fisheries remains committed to delivery of a new green ship fishing vessel to replace aging vessels in the fleet and minimize our environmental impact as much as technology allows. Based on its strong balance sheet, positive financial results, and successful governance and management, BFC secured all necessary financing, loan guarantee requirements, interest rate swaps, currency hedging, and credit letters to secure the planned \$70M vessel project.

The Company signed a fixed-price shipyard contract with Tersan Tersanecilik Sanayi of Turkey in August 2021 and has secured contracts for major components such as Factory, main engine, auxiliary engines, electronic power-regenerating winch system, electronics, freezing system – all of which are now under development. BF has secured a local inspection company to ensure the shipyard meets all obligations, and to support the BF new build team, which includes three chief engineers, Captains, Factor bosses, fleet manager, CEO, and administrative staff at BFC.

Baffin Fisheries has devoted the necessary resources to the vessel new build project to ensure it continues forward. However, the shipyard's steel production contract was with a Ukrainian shipyard which was bombed on the first day of the Russian invasion. As a result, steel cutting has been delayed six months, and vessel delivery delayed three months. Delivery date is now April 2024.

5. Financial Results

Financial results exceeded the Board's budget for fiscal 2021/2022. Top line revenue from all sources was \$72.1M versus a budget of \$67.2M for the year. Before tax income was \$9.3M versus a budget of \$4.1M and net income was \$7.1M compared to a budget of \$2.9M. The Company made a \$7M down payment on the new vessel during the year. There is a continual effort to focus on efficient operations and minimizing costs to increase the profitability of the enterprise, however; profit is expected to decrease in 2022. Profitability next year will be lower due to inflation, significant fuel cost increases, interest rate increases, increased maintenance costs associated with an aging fleet, significantly increased crew travel costs, quota reductions, and other challenges.

6. Economic Development

Outside of core fishing operations, inshore fisheries development remains the top priority, and plans remain for fishing activity to take place in both Pond Inlet and Clyde River in 2023. The Company is committed to completing the new building in Clyde River this year and hiring a new employee in the community. BF is committed to hiring a new position in Iqaluit to support the Board of Directors. BF is committed to working closely with, and supporting, CSFL/PFL to support their restructuring initiatives and growth plans.

Support of HTA freezers remains a challenge. BF continues to work with various suppliers and partners to help the HTAs ensure reliable community freezer operation.

7. Crewing

BFC employed a total of 72 Inuit employees during the year, up 19 from the previous year. Fifty five of those positions are on our vessels for a total of 38% Inuit employment on BF vessels up from 32% in 2020, however down from 54% in 2019. Baffin Fisheries has yet to recover from the loss of workers during the covid pandemic. The number of new Nunavut recruits' available to work onboard vessels decreased dramatically due to the Nunavut Fisheries Marine Training Consortium being closed for the better part of two years, due to Covid, and not yet back to capacity due to worker and accommodations shortages. BF is putting in place measures to get back to 2019 levels of employment and continue to increase from there. Inuit employment for all vessels increased during 2021. Fishing Trip 1,2 & 3, for the Sivulliq had 67% Inuit crew (10 out of 15 eligible crew positions), while the Inuksuk trip 2 had 66%. 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.

8. Outlook

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

Baffin Fisheries continues to work closely with NFMTCC, and to expand its recruitment team in Nunavut. However, it expects continued difficulty attracting Nunavummiut to its vessels. Meeting NWMB employment targets will be a challenge. Baffin Fisheries is exploring the development or acquisition of other businesses in Nunavut in order to meet employment targets.

Figure 1 - Table of Benefits

Goal	Progress Towards Goal	Future Commitments
Maximize efficiency to increase funding for delivery of benefits	<ul style="list-style-type: none"> • New vessel on target for delivery in April 2024 • New financing and vessel deposit guarantees in place • Comprehensive maintenance and refit review process underway, with commitment to improve predictive maintenance • Successful fuel hedging plans in place • Interest rate and currency instruments in place to reduce risk • Increased profitability in 2021 	<ul style="list-style-type: none"> • Implementation of new Vessel Maintenance System (VMS) in 2023 • Reduced annual maintenance costs • Increased royalty payments to HTAs • Improved sales and marketing performance
Maximize value from fishing operations	<ul style="list-style-type: none"> • Baffin Fisheries harvests the vast majority of its total allocation with its 100% Inuit-owned vessels and its own employees. • Completed another successful harvest year, harvesting more than 100% of turbot allocation and executing several shrimp quota swaps to maximize fleet utilization and profitability. 	<ul style="list-style-type: none"> • Harvest of 100% of economically viable allocations • Maximize use of BF fleet in harvesting • Increase BF fleet harvest and harvesting efficiency with new vessel • Maximize asset utilization through strategic quota swaps
Improve Work Experience	<ul style="list-style-type: none"> • Top quartile remuneration and benefits • Comprehensive Safety Audit of fleet • Modernizing fleet • Increased training and orientation • Extending fishing season to create year-round employment • Deployment of charter aircraft to ease crew travel burden. 	<ul style="list-style-type: none"> • Mentorship program underway, and continued investment in industry-wide NFMTCC mentorship program • Implementation of integrated Safety Management System (SMS) in 2023 to improve crew safety • Industry-leading vessel comforts and ergonomics being designed for new vessel
Increase Nunavut Employment	<ul style="list-style-type: none"> • Recruitment program underway for Nunavut crew • Working closely with NFMTCC to increase training capacity and effectiveness • New position in Pangnirtung with greater emphasis on HTS support • Hiring new positions in Iqaluit and Clyde River 	<ul style="list-style-type: none"> • Completion of mentorship for two new Inuit second mate positions • New mentorship positions to be created • Developing an executive management certification program for Inuit employees in 2023

		<ul style="list-style-type: none"> • Will fill new positions in Iqaluit and Clyde River
Improve Governance	<ul style="list-style-type: none"> • Five new board members elected in 2021 through community voting • Updated Governance Manual and strengthened Audit & Finance committees • Created new Board HR Committee 	<ul style="list-style-type: none"> • Greater Board involvement in HR and crewing matters • Updates to Board Governance Manuals
Develop Economic Activity in Nunavut Communities	<ul style="list-style-type: none"> • New building in Clyde River 95% complete • Refurbished Kimmirut HTA freezer • Supported infrastructure and materials for future ice fishing activity in Pond Inlet and Clyde River • Supported purchase and delivery of HTA lumber and materials sealift orders for the year. • Pursued new business opportunities in Nunavut 	<ul style="list-style-type: none"> • Inshore turbot Ice fishing activity planned for 2023. • New business opportunity to be developed in new Clyde River office building • Increased support to HTAs. • Continued pursuit of new business opportunities based on community need.
Ensure Sustainability	<ul style="list-style-type: none"> • Full participation and investment in all NFA environmental initiatives and significant financial contribution to all projects. • Invested in R&D, such as new technology to minimizing impact of trawl bottom gear. • Invested in upgraded and strengthened gillnets, ensuring AIS locator sensors on 100% of nets to ensure zero loss. • Invested in new-technology anti-fouling hull coating to reduce greenhouse gas emissions and reduce toxins in marine environment. • Continued compliance with all stewardship laws and guidelines; compliance with relevant legislation, ecosystem protection requirements, and responsible fishing requirements. 	<ul style="list-style-type: none"> • Reviewing, and where possible procuring, new technologies to reduce environmental footprint of new vessel. • Seeking partnership to co-develop new opportunities and species which allow increased activity in winter season.