

Nawiinginokiima Forest Management Corporation

AGENCY BUSINESS PLAN

for the period

2014/15, 2015/16 and 2016/17

Confidential

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AGENCY Business Plan

Table of Contents

1.0	Executive Summary.....	3
2.0	Mandate	5
3.0	Strategic Direction	6
4.0	Overview of Current and Future Programs and Activities.....	7
5.0	Resources Needed to Meet Goals and Objectives	11
6.0	Risk Identification, Assessment and Mitigation.....	14
7.0	Environmental Scan	16
8.0	Human Resources.....	21
9.0	Performance Measures	21
10.0	Financial Budget and Staffing	22
11.0	Information Technology/Electronic Service Delivery Plan	26
12.0	Initiatives Involving Third Parties.....	26
13.0	Implementation Plan.....	28
14.0	Communication Plan	28
15.0	Organizational Chart	29
	BUSINESS PLAN APPENDIX I - Example Organizational Chart	30
	BUSINESS PLAN APPENDIX II - NFMC “Projected Financial Statements”	31
	BUSINESS PLAN APPENDIX III - NFMC “Key Financial Assumptions”.....	35
	BUSINESS PLAN APPENDIX IV – Compensation Strategy.....	36

1.0 Executive Summary

Nawiingnokiima Forest Management Corporation (NFMC) is the first Local Forest Management Corporation to be formed under the *Ontario Forest Tenure Modernization Act, 2011* (OFTMA) and represents an important component of Ontario's overall plan for modernizing the forest tenure and pricing system in the province.

The Agency business plan prepared by NFMC provides a financial forecast for the next three years of NFMC operations and is being submitted to the Ministry of Natural Resources (MNR) to support the transition/issuance of sustainable forest licences to the Corporation beginning in the fall of 2014. NFMC will work closely with MNR during the start-up and establishment period to assess and update components of the business plan appropriately to support the scheduled transition and issuance of licences through the 2014/15 fiscal year.

NFMC will derive its revenues from the sale of Crown timber from its defined management area consistent with the approved revenue model for LFMCS. Currently NFMC generates revenues from an administration fee charged on deliveries from the Big Pic and Pic River SFL's. In 2013/14, NFMC generated \$449,742 in administration fees for volume delivered during the year. For 2014/15, NFMC is estimating administration fee charges of \$706,000. The CRF component is currently going to a trust administered by FFTF. The revenues from stumpage for NFMC are forecast to begin in the spring 2015 following the issuance of forest resource licences for the Big Pic and Pic River forest resource licences to the Corporation. Full implementation of the revenue model is expected to begin in the fall 2015/16 and will coincide with the issuance/transition of the four SFLs (Big Pic, Pic River, White River and Nagagami Forests) to the agency. Total stumpage revenue, of \$2,500,000 (not including the start-up funding from Forestry Futures Trust) is estimated in 2014/15 rising to \$3,400,000 by 2015/16. These revenues are based on projected annual harvest volumes for all species and products of 690,800 cubic metres and 844,000 cubic metres in 2014/15 and 2015/16 respectively. Forest product markets and operations in the proposed management area are currently constrained and, while showing signs of recovery, still present some uncertainty to NFMC operations in the near-term. For the purpose of the revenue assumptions, wood sales were projected based on an anticipated modest recovery in the area's forest product markets over the three year projection period.

NFMC operations will be structured to meet obligations related to the sustainable management of the forests in which it is responsible. Operations will be scaled appropriately and in accordance with those revenues in order to ensure the Corporation can cover its operating costs and begin building an operating reserve as a hedge against market downturns. Operating expenditures began to incur in February, 2012 once the official Board of Directors was put in place. Total expenditures (including road maintenance and forest renewal expenses) of \$ 2,619,879 were incurred in 2013/14. The company's operating costs for 2013/14 were approximately \$600,000 (excluding roads and renewal costs). The operating costs for 2014/15 are estimated at \$1,300,000

due to the fact that NFMC is now responsible for salaries and benefits previously covered by the MNR. Start-up financing from the Forestry Futures Trust's – LFMC Conversion Program will be available to "capitalize" the agency and support its working capital needs during the start-up period until NFMC assumes the SFL's.

2.0 Mandate

Legal Authority to Establish

The *Ontario Forest Tenure Modernization Act, 2011* (OFTMA) provides for the establishment of an Ontario Local Forest Management Corporation (LFMC) as an agent of the Crown. The OFTMA states the objects of an LFMC as follows:

- To hold forest resources licences and manage Crown forests in accordance with the *Crown Forest Sustainability Act, 1994* (CFSA) and to promote the sustainability of Crown forests.
- To provide for economic development opportunities for Aboriginal peoples.
- To manage its affairs to become a self-sustaining business entity that optimizes value from Crown forest resources while recognizing the importance of local economic development.
- To market, sell and enable access to a predictable and competitively priced supply of Crown forest resources.
- To carry out such other objects as may be prescribed by regulation.

Nawiingnokiima Forest Management Corporation (NFMC) was established through regulation under the *OFTMA on May 29, 2012* (see attached Regulation 111/12).

Purpose/Mandate

Consistent with OFTMA and the objects of an LFMC, as described in the Act, the mandate for the NFMC is as follows:

- Manage Crown forests sustainably in accordance with the CFSA, including the development and implementation of Forest Management Plans.
- Market and sell available Crown timber in a manner that:
 - creates a cost competitive, affordable, and accessible supply of Crown timber to the forest sector,
 - promotes best end use of available Crown timber,
 - recognizes importance of local forest businesses for employment and community stability,
 - is responsive to changing conditions; and,
 - provides a continuous and predictable supply of Crown timber.
- Provide economic benefits to communities dependent on Crown timber from the management area, including employment and economic development opportunities in the forest sector.
- Provide for economic development opportunities and greater role for local and Aboriginal communities in the management of Crown forests.
- Promote and attract forest sector investment in the local management area.

- Operate as a self-financing business, which includes establishing an operating reserve which will ensure continued sustainable forest management in response to variations in economic cycles.
- Reinvest in the forest to improve the Crown forest asset through the following activities:
 - Intensive silviculture
 - Training and capacity development for Aboriginal communities
 - Forestry research and development
 - Forest sector marketing and forest product development
 - Other activities as assigned by the Minister
- Advise the Minister of Natural Resources on matters related to the forest industry and forest sector.
- Collect, maintain and provide Crown timber sales and pricing information.

Vision/Mission

By 2018/19, NFMC will strive to be recognized as a leader in sustainable forest management and a model for community-managed forests that is focused on:

- The interests of the communities,
- Generating a high level of innovation,
- Driving economic development in the region, and
- Providing effective governance and management of the forests.

3.0 Strategic Direction

In September 2013, NFMC initiated a strategic planning exercise as a first step in establishing the strategic direction for the Corporation over the next five years consistent with the objects described in the OFTMA.

As part of that exercise, NFMC identified five major thematic opportunities that could be pursued, falling into the categories of:

- Establishing a world class forest management company,
- Extending the scope of usage of forest resources,
- Building new forest related industry in the local communities,
- Establishing a new baseline for First Nations engagement, and
- Engaging the community in forestry operations and opportunities

In order to move forward on these opportunities NFMC has identified 11 strategic initiatives that fall generally into the areas of stakeholders, economics, and marketing as reflected in Table 1 below:

Table 1. NFMC proposed strategies and strategic initiatives

Strategic Area	Proposed Strategy	Status/Strategic Initiatives
Stakeholder	Engagement Strategy	Policy for Observers at Board meetings Forest Industry Stakeholder Advisory Committee Communications Strategy under development
	Talent Management & Compensation Strategy	GM and other members of the management team recruited Compensation Strategy developed and approved Performance Management & HR Committee to be formed
	Education Strategy	To be developed
	Partnership in Innovation Strategy	To be developed
Economics	Economic Development Strategy	Draft Procurement policy under development Other tools to be developed
	First Nation Economic Development Strategy	Draft Procurement policy under development Other tools to be developed
	Maximizing Value from the Forest Strategy	Long-term MOAs with customers Available wood supply report
	Financial Management & Reinvestment Strategy	Building stable and sufficient cash flow Establishment of Operating Reserve
Marketing	Wood Marketing Strategy	Open market sales program to be developed
	Brand Strategy	Draft Communication strategy under development
	Forest Industry Strategy	Long-term MOAs with customers Forest Operations Committee established

During 2014/15, NFMC will continue to move forward with the development of the above noted strategies and strategic initiatives.

4.0 Overview of Current and Future Programs and Activities

The NFMC, a classified operational enterprise Crown agency, is intended to be self-financing with the mandate to sustainably manage the forests within its mandated area and to harvest, market and sell the associated available wood supply.

Given this, the NFMC has three major program areas:

1. Forest Management Planning,
2. Forest Operations (including harvesting, renewal, roads and compliance activities), and,
3. Timber sales and marketing.

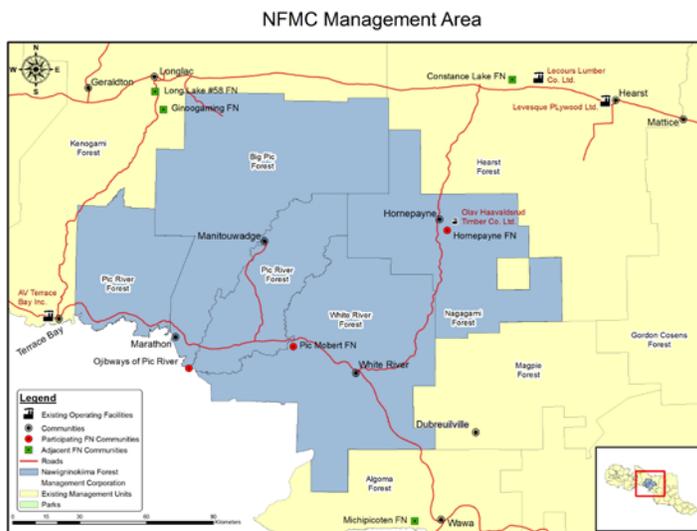
The NFMC will hold and manage the applicable sustainable forest licences (SFLs) for the proposed management area. Activities of NFMC will be guided by the applicable SFLs and will be consistent with the requirements of the CFSA and the OFTMA.

NFMC Management Area

NFMC will operate within its defined management area as illustrated in Figure 1. The Management Area includes the communities of the Ojibways of the Pic River First Nation, Pic Mobert First Nation, Hornepayne Aboriginal community, Marathon, Hornepayne, Manitouwadge and White River.

NFMC will manage an area that is proposed to comprise four management units – Big Pic, Pic River, White River and Nagagamji Forests. This proposed management area encompasses approximately 1.9 million hectares of productive Crown forest with an available harvest volume of 2.2 million cubic metres of merchantable fibre and 435,000 cubic metres of biomass fibre annually (based on current forest management plans).

Figure 2: Proposed Management Area for NFMC



Forest Management Planning

Forest management in Ontario is conducted in accordance with the CFSA and is accomplished through the preparation and implementation of a 10-year forest management plan for each designated management unit. Implementation of a forest management plan includes the development of annual work schedules and annual reports as well as the preparation of any new forest management plan that may be required as part of the ongoing forest management planning cycle.

There are currently four approved forest management plans in place on the NFMC management area (one for each of the four forests) and NFMC will be responsible for implementing those plans in accordance with any forest resource licenses that are issued to the Corporation. In addition, NFMC will be responsible for preparing new

forest management plans for the management area as required to facilitate ongoing forestry operations.

The MNR has requested that the Big Pic and Pic River SFL's be amalgamated into a single forest management plan, targeted for 2018. NFMC will need to prepare a contingency plan because of the different FMP planning cycles for Big Pic and Pic River. NFMC has reviewed unharvested FMP allocations and contingency with objective to create a 2 year contingency plan that will allow sufficient time for FMP planning and get Pic River and Big Pic on same planning cycle.

Forest Operations (including harvesting, renewal, roads and compliance activities)

Harvesting capacity in the management area continues to be constrained due to the recent impacts of bankruptcies and restructuring of the area mills as well as the continued weakness in forest product markets and prices. Local harvesters continue to face difficulty financing equipment and operations, securing trucking capacity as well as attracting skilled and trained workers to take advantage of any market demand.

NFMC has identified the following harvesting companies/organizations with an interest in building capacity to conduct forest operations on the management area:

1. Pic River Development Corporation
2. Pic Mobert First Nation
3. B&M Hauling
4. AV Terrace Bay Inc.
5. Ken Dooley and Son Logging
6. 686860 Ontario Inc.
7. Buchanan Woodlands Inc.
8. Olav Haavaldsrud
9. Kenogami Lake Lumber (sub-contractor for Nagagami Forest Management Inc.)
10. Kabi Lake Forest Products (sub-contractor for AV Terrace Bay)
11. Amik Logging

NFMC will continue to work with the existing harvesters and mills to develop harvesting strategies to build local capacity consistent with NFMC objectives and ensure wood is harvested and made available. Future programs for NFMC could include strategies to further develop workforce capacity and will be developed as NFMC moves forward with its strategic plan.

NFMC's operations will also include the necessary renewal, roads, compliance and other operational responsibilities required under its forest resources licences issued by the MNR. Further details on these programs as they relate to renewal and roads can be found in Section 5.0 below.

Timber Sales and Marketing

Currently, existing wood supply obligations total approximately 1.2 million cubic metres annually. The table below illustrates the existing and proposed wood supply obligations on the management area.

In addition to the existing wood supply obligations above the proposed wood supply obligations for the management area largely represent the conditional offers under the Provincial Wood Supply Competition and could result in additional markets and wood demand of 396,077 cubic metres annually. The proposed Rentech jet fuel facility has been scrapped, however the company is investing in a pellet plant in the Wawa area. It is important to note that these investments are uncertain and at best a year away so they cannot be accurately forecast or relied upon as a market for wood supply in the short-term but do present some upside to NFMC should they materialize in either the near or long-term.

NFMC is working closely with existing and proposed commitment holders to ensure wood supply is made available consistent with any commitments and obligations identified by the Ministry. Where commitment holders do not intend to utilize their committed volumes, NFMC will develop a process to ensure they are made available for other customers.

Table 2: Wood Supply Obligations of the proposed Management Area

Existing Wood Supply Obligations	Merchantable			Unmerch	Total
	SPF	Po/Bw	Other	All Species	
AV Terrace Bay	419,700				419,700
White River Forest Products	362,000				362,000
Levesque Plywood (<i>rationalized SA</i>)		78,800			78,800
Olav Haavaldsrud	240,000				240,000
Olav Haavaldsrud (Cogen)				103,000	103,000
Subtotal	1,021,700	78,800	0	103,000	1,203,500
Proposed Wood Supply Obligations					
Lecours Lumber	82,000				82,000
Pays Plat First Nation (Smoke Signals)		10,000			10,000
Olav Haavaldsrud	24,000				24,000
Rentech (proposed business to business)		280,077			280,077
Subtotal	106,000	290,077	0	0	396,077
Total	1,127,700	368,877	0	103,000	1,599,577

A minimum price for timber will be set by the NMFC to ensure it can pay associated Trust charges and recoup its other operating costs. The NFMC will have the flexibility to consider and incorporate other factors like quality, distance, species, access and other factors when establishing the minimum price for which it sells Crown timber.

Utilization Strategies

NFMC is developing strategies and principles to ensure maximum utilization and value from the available forest resources. NFMC will strive to be a model for open and competitive marketing of wood fibre and will strive to develop and support a balanced and diverse base of customers and service providers consistent with its objects.

Future Programs and Activities

As described in Section 3.0, NFMC is currently working on its strategic plan to guide its future programs and activities and will continue to move forward with efforts in this regard. During the projection period, NFMC will focus on ensuring its ability to fund operations and manage obligations under its forest resource licences. To this end, the Corporation is anticipating that it will be in a position to establish and grow its operating reserve to a sufficient level to manage its operating risk and exposure. The Corporation is also anticipating that it will have sufficient cash flow to support other strategic initiatives to further its objects and has earmarked some funding beginning in 2014/15 to support the development of specific strategies/programs. Please refer to Sections 10 and 12 for further details on the operating reserve and strategic initiatives being pursued by the Corporation.

In 2014/15, NFMC will be focused on recruitment and retaining talent for the Corporation and building relationships and trust with forest industry clients and customers in the NFMC management area. In this regard, NFMC has developed a comprehensive compensation strategy and has also been actively engaged with the forest industry to open the dialogue and ensure transparency in its operations.

The Corporation will also be actively pursuing discussions with MNR and the existing licence holder to facilitate the transition/issuance of SFLs to the company. NFMC is anticipating the issuance of the SFLs for the Big Pic and Pic River forest at the end of 2014/15 fiscal followed by the White River and Nagagami in mid 2015/16. Refer to Section 13 for a more detailed schedule for the transition of licences to NFMC.

5.0 Resources Needed to Meet Goals and Objectives

NFMC is expected to operate independently from government and on a financially self-sufficient basis. As a Crown agency, NFMC is required to conduct itself according to the management principles of the government of Ontario. In order to accomplish its goals and objectives the Corporation has access to several sources of revenue which are summarised in Table 3 below. It is important to note that some of these sources of revenue such as the Forest Access Roads and Forest Renewal Trusts are designated for specific purposes and are not generally available to NFMC to cover its day-to-day costs and expenditures. While NFMC will be responsible for the management and implementation of these programs on its management area, the Corporation will only

be able to access funding from these programs to support eligible costs that it has incurred specifically for the delivery of these programs.

Table 3. Resources available to NFMC

Resource	Details	NFMC goals and objectives	14/15 Amount available (estimate)
LFMC Conversion Program	Redirected stumpage revenues to support NFMC start-up and establishment	<ul style="list-style-type: none"> o To become a self-sustaining business entity o Establishment of an operating reserve 	\$1,810,000
LFMC Revenue Model	Stumpage revenues and admin fees from wood sales remain with NFMC to further objects	<ul style="list-style-type: none"> o Sustainable forest management o Economic development for communities and Aboriginal people o Timber marketing & sales information/data 	\$2,557,870
Forest Renewal and Forestry Futures Trusts	Funding for eligible renewal and silviculture activities Majority of funding flows as a direct reimbursement to contractors	<ul style="list-style-type: none"> o Reinvesting in & improving the forest asset o Sustainable forest management 	\$2,860,000 NFMC estimates a recovery of ~\$447,292 for eligible costs incurred in the delivery of this program
Forest Access Roads Funding	Funding allocation to support construction & maintenance of forest access roads Majority of funding flows as a direct reimbursement to contractors	<ul style="list-style-type: none"> o Cost competitive, affordable wood supply o Continuous and predictable supply 	\$1,200,000 NFMC estimates a recovery of ~\$62,424 for eligible costs incurred under this program

LFMC Revenue Model

NFMC revenues are derived from the sale of Crown timber from the management area. The company needs to market and sell sufficient volumes of Crown timber to cover its operating costs, and will scale the operations in accordance with the revenue it generates from the sale of timber. An important part of the self-financing revenue during the start-up period is being allocated to build up an operating reserve as a hedge against market downturns.

Pricing for timber sales will be set by the NFMC to ensure it can pay associated Trust charges and recoup its other operating costs. The NFMC will have the flexibility to consider and incorporate other factors like quality, distance, species, access and other factors when establishing the minimum price for which it sells Crown timber. During its start-up period and until sufficient information can be collected from an open market sales program, NFMC will rely on the MNR stumpage matrix to set the price it charges for timber.

Ultimately, NFMC will operate under a revenue model where the price it charges for Crown timber is determined by market factors. Technically this will be accomplished by having the CFSA s.31 price for the Crown timber set by the Minister to zero such that there will be no requirement for remittances to the Consolidated Revenue Fund for Crown timber harvested on the NFMC management area. Remittances to the two forest Trusts would continue in their current manner. The remaining value of the Crown timber, as established in the marketplace, will flow to the NFMC. The agency will use this revenue to cover its costs, satisfy its obligations and to undertake activities consistent with its objects.

Forest Renewal Trust Funds:

The Forest Renewal Trust (FRT) account(s) for the four management units will fund eligible silviculture activities as well as the associated support and administration costs incurred by NFMC in designing and delivering the silviculture program. Applicable forest renewal charges will continue to apply and be paid into the Forest Renewal Trust for wood harvested from the NFMC management area. NFMC will follow the established principles and process for setting renewal charges, which are set by MNR and will ensure that the necessary budgeting and invoicing procedures are in place.

NFMC will determine the level of costs that can be attributed to the silviculture program and will seek reimbursement following established procedures. Eligible costs for reimbursement are determined by the Forestry Futures Committee and include direct costs of employees/contractors associated directly with eligible silviculture work including planning and record keeping as well as an allowance for administration overhead.

Forest Access Roads:

As the SFL holder, NFMC will be responsible for managing arrangements for the construction and maintenance of a majority of the forest access road infrastructure on the management area. This public road infrastructure represents a large capital investment and benefits many users, including mining companies, tourism operators, First Nation communities, utility and railway companies, hunters, anglers, campers, trappers, cottagers, and the general public. It also provides the rural infrastructure for emergency preparedness and response.

In 2005, the MNR established a funding program to assist the forest industry in the cost of construction and maintenance of these forest access roads. The program is based on a reimbursement to forest companies for invoiced amounts of road construction and maintenance costs on eligible multi-use primary and secondary forest access roads. The future availability of the program is uncertain and difficult to predict given the current economic climate facing the government.

Currently, the forest access road program provides a significant financial benefit to the existing licence holders in the proposed management area. In 2013/14, the management units in the proposed management area had a funding allocation of \$1.44 million available to support construction and maintenance activities. The government announced that funding will be reduced in 2014/15 to less than \$1.2 million for the Big Pic and Pic River SFLs. The government stated that in future years the funding would return to prior levels. Subject to the program continuing into the future, it is expected that similar funding could be realized.

LFMC Conversion Program Funding

NFMC will require initial funding to capitalize the corporation and cover start-up expenses, administered by the Forestry Futures Trust Fund, until the SFLs have been issued and the agency has fully implemented its revenue model. Once SFLs are issued and the available funding from the LFMC conversion program is utilized, any investments or expenses of the agency would be funded out of revenue generated from the sale of timber.

To support the establishment and start-up capitalization of the NFMC, the Ministry has identified an initial funding source under the Forestry Futures Trust LFMC Conversion Program. Currently, the Agency has been approved for up to \$1.78 million of available funding for the 2013/14 fiscal year and NFMC is required to abide by any terms and conditions including meeting key milestones.

This start-up funding was derived from the redirection of the CRF portion of Crown stumpage on the NFMC management area into a sub-account of the FFT beginning on June 1, 2012 to be accessed by NFMC to support its start-up. The funding will stop flowing into the FFT and NFMC will then be responsible to set price and collect funding once the respective SFLs are issued. Given delays in issuance of the SFLs, NFMC will be pursuing a revised application to the Forestry Futures Committee to access the balance of funding that has accrued in the FFT account during the 2013/2014 and 2014/15 fiscal years. A new funding agreement will be developed with the Forestry Futures Trust LFMC Conversion Program in 2014/15.

6.0 Risk Identification, Assessment and Mitigation

NFMC is an operational enterprise agency with a Board of Directors and General Manager that are responsible for making operational decisions. As a Crown agency, there is a need to regularly identify, assess and manage any risks to the achievement of agency, ministry and/or government objectives. To do this, NFMC follows the risk assessment and risk management process outlined in the "Guide to the Risk-Based Approach for the Agency Establishment and Accountability Directive, 2010". Table 4

below provides a summary of the key risks and risk levels associated with this assessment.

Table 4. Risk assessment and management

Risk Category	Risk Element	Assessment		Mitigation Strategy
		Likelihood of occurrence	Impact if realized	
Strategic	Ability to achieve objects	Medium	High	Strategic planning underway
	Financial stability	Low	High	Monitoring start-up funding; building relationships with customers; operating reserve establishment
	Ability to meet stakeholder expectations	Med	High	Active engagement with local communities, First Nations and forest industry Stakeholder advisory and forest operation committees created
	Public Image	Low	Low	Communication strategy; targeted outreach
Accountability/ Governance	Ensuring responsible & compliant operations	Low	Low	Working closely with MNR to ensure requirements are met
	Internal governance and accountability mechanisms	Low	Low	By-law incorporates the most current conduct & accountability standards for agencies
	Contractual compliance	Low	Med	Retainer for outside legal support obtained
	Financial reporting	Low	Med	Financial management system in place; audit
Operational	Market risk – demand for wood and impact on cash flow	Low	High	Operating reserve establishment; building relationships with customers
Financial	Stumpage risk – customers unable to pay stumpage arrears	Med	High	Monitoring customer payments/balance, operating reserve establishment
Workforce	Attracting talent	Med	High	Competitive compensation package; recruitment support
IT & Infrastructure	Development of IT infrastructure	Low	High	Tendering for services from qualified vendors with established IT infrastructure
Other	International trade risk	Low	Med	MNRF to support NFMC until market based system can be developed

Liability Protection and Insurance

The Corporation has obtained and will maintain the insurance appropriate for a prudent business in similar circumstances to the Corporation including comprehensive general liability insurance and directors and officer’s liability insurance.

7.0 Environmental Scan

Forest Product Market Analysis

The current and projected markets for available wood fibre from the NFMC management area fall under four main forest product sectors; lumber, panel, pulp & paper and forest biomass.

The lumber and panel sectors are showing signs of recovery as a sustainable recovery in the U.S. housing sector appears to be underway. The expectation is for U.S. housing starts to increase 31.5% from 2012 and an additional 30% in 2014 (RISI Feb 2013). The rapidly evolving Chinese market for lumber, especially spruce pine fir (SPF) offers a large opportunity going forward. China is expected to experience a fibre shortfall of 60-80 million m³ by 2015 (Equity Research Associates (ERA), April 2011). When you combine growing Chinese fibre requirements with the pent up demand being created in the US housing market, conditions appear favourable for lumber and panel producers especially in 2013 and beyond. A rebound in prices and profit is expected in 2013-2015 and will coincide with the completion of housing inventory correction in the U.S. Housing starts are expected to reach 1.34 million a year by 2014 which is more in line with pre-recession crisis levels.

Pulp demand and prices were undermined in 2012 due to weaker than projected world-wide economic activity. Continued negative pressure is expected to be exerted on Canadian mills in the short term as markets continue to stabilize and adjust to accommodate supply side factors. Demand from China is offsetting weakness in the North American market due to the shift away from paper and writing grades. Fortunately, paper and writing grades are still growing in demand in developing countries and this growth is more than offsetting the anticipated decline in mature markets. Demand for other pulp products such as dissolving pulp for uses like rayon is also showing some signs of growth and opportunity including the recent purchase and announcement to convert the Terrace Bay pulp mill.

The outlook for forest biomass is favourable as the Ontario government continues to advocate the use of renewable energy through various policy initiatives. The movement towards more renewable energy will translate into increased demand for previously unmerchantable fibre produced by harvesting activities. This will provide additional revenue to NFMC from the management area as well as reduced forest renewal costs typically associated with addressing non-merchantable fibre prior to renewing the forest.

Overall, factors look favourable for the continued recovery of key forest sector markets in the mid to long-term. This sustained recovery presents some upside to the operation of NFMC in 2014 and beyond.

One concern regarding AV Terrace bay's plan to upgrade its pulp operations is that China plans to continue with anti-dumping measures on dissolving pulp imports from Brazil, Canada and the USA. China's Ministry of Commerce (MOFCOM) announced it has

decided to introduce definitive anti-dumping duties, following the provisional measure started in November 2013. The definitive AD duties of up to 33.5% have become effective on April 6, 2014 and will last for the next five years.

A) Softwood Lumber Mills:

Three softwood lumber mills have been identified as core customers for NFMC:

1. Olav Haavaldsrud Timber Company – is located directly in the management area and considered a core customer with a projected demand for approximately 270,000 cubic metres of spruce, pine and fir (SPF) sawlogs annually. Haavaldstrud was successful in the Wood Supply Competitive Process (WSCP) and has proposed to expand its operating capacity to 510,000 m³ annually.

The management area currently provides 100% of the mill's current wood supply needs consisting of all available SPF supply from the Nagagami Forest (~240,000 m³) plus an additional 24,000 m³ from the Big Pic Forest. Overall, Haavaldsrud's wood demand represents a market for ~13% of the available supply from the management area. This demand may increase with implementation of the WSCP.

In October 2013, an associated company finished construction of a 10 megawatt (MW) cogen facility on property adjacent to mill. The cogeneration facility will result in significant cost savings to the mill and additional revenue stream from sale of electricity. Initial estimates indicate that around 44% of wood for the cogen would come from residuals from the sawmill operations. The remainder would need to be obtained from unmerchantable forest biomass. There is a long-term Memorandum of Agreement between Nagagami Forest Management Inc and Haavaldstrud for 103,000 m³ annually of harvest residues (biomass) to support the operation of the cogeneration facility. The cogeneration facility is regarded as an important component to the long-term viability of the mill.

The sawmill is currently operating at a reduced capacity and dependent on having sufficient orders for its products. The outlook for the short-term operation of the sawmill and the proposed expansion is tied to recovery in U.S. housing market. Haavaldsrud is currently considered a high risk operation and presents significant risk to the initial and longer term viability of the NFMC and vice versa given dependency on the management area for the mills wood supply.

2. Lecours Lumber Co. Ltd is located outside the boundary of the management area and is over 200 km from the proposed wood supply. While not considered a core customer, this mill has a proposed wood supply agreement under the WSCP for 82,000 cubic metres of SPF annually from the Big Pic forest.

Lecours represents a market for approximately 4% of the available supply from the management area.

Over the past couple of years the sawmill has been running sporadically and at reduced capacity. A timetable for resumption of full scale operations is still unclear.

The proposed operating level for the mill is 565,000 m³ as per the facility licence but mill has not approached anything near that type of volume since 2005/2006. The majority of fibre requirements are sourced from Kenogami, Hearst and Gordon Cosens Forests

3. White River Forest Products restarted the idled sawmill in White River in October of 2013 and the mill is currently operating on one shift. White River Forest Products has ~364,000 cubic metres available to harvest and utilize through the SFL they currently hold on the White River forest but require additional volumes to support the proposed operation. The company is also currently in discussion with AV Terrace Bay regarding potential synergies and opportunities. During the projection period White River Forest Products has indicated that they will require 500,000 to 600,000 cubic metres to support the mills operation and that this demand will be sourced primarily from backlog supplies available on the White River forest. This additional demand from the White River forest has been incorporated into the financial forecasts.

B) Pulp and Paper Mills

One pulp mill has been identified as a core customer:

1. AV Terrace Bay (AVTB) is considered a core customer and market for at least 419,000 cubic metres of conifer annually.

In the summer of 2012, AVTB announced that it had acquired the former Terrace Bay Pulp Inc. pulp mill and would be undertaking investment to convert the mill to produce dissolving pulp. The mill began operations in October 2012 and is currently operating and producing Northern Bleached Softwood Kraft while it prepares to undertake investment to convert the facility which is expected to begin in the fall of 2014.

While operating as a NBSK mill, the facility has a Ministry Recognized Operating Level (MROL) of 1.532 million m³ of merchantable SPF and 100,000 m³ poplar annually based on the use of 12 of the 18 digesters (67%) installed at the mill, and 96,000 m³ of unmerchantable fibre annually. Following the conversion to dissolving pulp, the MROL is expected to increase to 1.532 million m³ merchantable SPF and 268,000 m³ poplar annually, and 146,000 m³ of unmerchantable fibre annually. Operation at higher levels would require an increased wood supply. This larger affordable wood supply is not immediately apparent but would present additional opportunity for NPMC.

The sale of the mill is a positive outcome and a significant opportunity for NPMC. If operating in its current configuration, the mill could be expected to consume at least 19% of the available supply from the management area and could purchase

significantly more (up to 25% of available supply) should it be made available. AVTB has consumed forest biomass in addition to merchantable wood supply. Past practices have seen the mill use some forest biomass derived from trees harvested for the facility or from other forestry operations in the area.

While the management area is an important strategic source of wood supply for the pulp mill's sustainable operation, the facility has ability to turn this market "on" and "off" as required (depending on availability of wood from other sources) and may choose to "store" volumes on the stump in favour of accessing cumulative volumes in a future year. This practice causes uncertainty for the NFMC and would have to be managed by the agency as part of any wood supply arrangements made with the company. Historically, the facility has been dependent on sufficient demand for market pulp and it is expected that the conversion to dissolving pulp will provide a more stable outlook and operation of the facility, even in the face of China's anti-dumping tariffs. Until the conversion is complete AV Terrace Bay continues to be considered a high risk operation to the financial performance of NFMC due to the amount of wood supply the mill consumes and the lack of alternative consumers who could compensate for the loss of such a large volume of demand for local wood supply. The operation of a facility in Terrace Bay is also highly important to the sustainable operation of area sawmills as a destination for residual sawmill chips.

C) Panel and Board Mills

Historically the management area had benefited from healthy competition between several existing veneer and oriented strand board (OSB) manufacturers. Most of these facilities have closed leaving only a single remaining panel board customer in Hearst.

1. Levesque Plywood Ltd. – considered a core customer and market for up to 107,000 cubic meters of veneer quality hardwood annually. The mill has an existing commitment for 91,270 m³ of veneer quality hardwood (poplar and birch) from the management area and has received an offer for an additional 15,800 m³ of poplar under WSCP. This supply combined with the existing commitment represents roughly half of the planned capacity of the mill and about 5% of the available supply from the management area.

The mill has been resilient over the past five years and has taken minimal down time even amidst the economic downturn. Currently Levesque is operational and actively seeking wood to meet production requirements. The company has been trying to obtain fibre to meet current demand and is having difficulty because of its specific fibre requirements. The amount of hardwood harvested has been low given the reduction in capacity for OSB and waferboard production in the province and is expected to continue until alternative markets for "residual" hardwood supplies have developed (e.g. engineered wood, wood pellets, biomass, etc.).

D) Biomass Mills

Biomass markets and customers are a relatively new and developing opportunity for the management area and for NFMFC. While a couple of biomass consumers currently exist in the area there are several proposals that, if established, would see significant increase in demand for forest biomass from the management area.

1. Rentech-‘RTK WP Canada, ULC’ is proposing a pellet mill in Wawa and NFMFC is currently in discussions regarding a long term business arrangement to support access to wood supply to support the facility. Demand from Rentech has not been incorporated into the forecasts but if it materializes will offer significant upside to NFMFC operations for additional sales of its available hardwood and biomass fibre
2. Capital Power (Calstock) – facility has historically relied on mill residuals as its main feedstock however because of the downturn in the markets it has looked toward forest harvest operations as a source of supply. The management area provides marginal opportunities as a source of supply.

The facility has a 20 year Power Purchase Agreement with the Ontario Power Authority for the sale of electricity to the grid. Capital Power was a successful applicant of the WSCP for ~173,000 m³ of unmerchantable fibre from management units closer in proximity to the facility. As forest products markets begin to recover and sawmills come back on-line it is uncertain as to the levels of forest biomass that will be required by Capital Power but its operation does present some upside as a potential market for forest biomass from NFMFC. The operation is located over 150-200km from the closest forests managed by NFMFC and would be on the marginal end of the mills economic wood basket.

E) Other Market Opportunities

Over the last couple of years, the management area has been able to provide volumes to other less strategic customers located well outside the boundary of the management area, sometimes as far as 500 to 600 km away. It is anticipated that these markets will still exist and may present some markets for additional wood sales for NFMFC.

These opportunities include:

1. Tembec sawmills in Hearst and Chapleau (located approximately 200km and 300km respectively) – have purchased significant volumes in 2012/13
2. Tembec papermill in Kapuskasing (located ~300km away)
3. Domtar pulpmill in Espanola (located ~500km away)
4. Resolute pulp and paper mills in Thunder Bay and Iroquois Falls (located 400 km and 500 km respectively)

While opportunities may continue with the Tembec sawmills, it is unlikely that the pulp and paper mills identified above will be strategically important customers for NFMFC operations due to the disadvantage caused by the distance to these facilities from the NFMFC management area.

Macro-Economic Environment

The current macro-economic climate continues to present some uncertainty and risk for a meaningful and sustained recovery for the North American forest product industry. However, the US economy has proved surprisingly resilient and the risk of recession in the US has decreased as of late with some signs of life beginning to show in areas like consumer confidence, employment growth, industrial production and housing markets.

In the near term, it will remain difficult to predict any sustained recovery given the uncertainty in the macro economic climate and forest product markets in general. It is likely that factors like consumer confidence, monetary policy, exchange rates, fuel prices and instability in other economies will continue to threaten economic recovery both globally and in North America in general. This uncertainty will translate into continued challenges for Ontario's forest industry in the immediate to near term and although there appears to be significant upside potential there remains some market risk for the mills and customers that purchase wood from NFMC especially during its initial start-up period.

8.0 Human Resources

The organizational structure for NFMC has been designed to be scalable and flexible to accommodate the needs of the Corporation as SFLs and associated responsibilities are assumed. For example, staffing and other resources as indicated in the business plan would be reduced appropriately until all four SFLs are assumed by the company.

NFMC is committed to having sufficient staff and/or other resources in place to undertake all responsibilities under the SFLs as they are assumed. In this regard, NFMC has completed the development of a comprehensive staffing and compensation strategy which was approved by MNRF. The Corporation has moved ahead with its management staffing, including General Manager, Finance Manager, and contract Operations Manager. The company has also recruited its operating staff and has hired two full time positions including a Forestry Coordinator, Forestry Planner, contract Silviculture Planner, and an Office Coordinator to ensure that its forest management planning and operations obligations are being properly satisfied.

NFMC has worked closely with the MNR to produce a detailed compensation strategy that provides a tool to ensure the Corporation's ability to attract and retain talented staff while remaining competitive with comparable compensation levels within industry and government. A copy of the Compensation Strategy is included in Appendix IV.

9.0 Performance Measures

NMFC will develop operational performance measures and targets to ensure the achievement of its goals and objectives as well as achievement of the objects for the Corporation as described in the OFTMA. Examples of performance measures are outlined in Table 5 below.

Table 5. NFMC Preliminary Performance Measures

Goal	Performance measure	Standard/Target
World class forest management company	<ul style="list-style-type: none"> - Are the forests being managed sustainably as per audits/certification standards, etc.? - Has the renewal program met or exceeded the commitments made in the approved FMP? 	<p>All forests certified by 2016/17</p> <p>Favourable audit findings</p>
Becoming financially self sufficient	<ul style="list-style-type: none"> - Does the Agency have sufficient cash flow to support operations - Has an appropriately sized operating reserve been established? 	<p>\$200,000 to 500,000 of free cash flow</p> <p>\$0.7 million operating reserve by year end 2014/15</p> <p>\$2.0 million operating reserve by year end 2015/16</p>
Extending scope of usage	<ul style="list-style-type: none"> - Have commitments volumes been made available and/or utilized? - Has wood been made available to new entrants? How much? - Has NFMC moved closer to a more economically efficient system for wood allocation and pricing? - Has utilization of available timber over operational period improved and/or new markets been developed? 	<p>100% of commitment volume made available</p> <p>Percentage of wood made available to open market customers</p> <p>Positive utilization trends</p>
Building new local forest related industry	<ul style="list-style-type: none"> - Have local economic development opportunities been created/supported by NFMC operations? 	<p>Establish benchmarks for current levels</p> <p>Targets to be determined</p>
Establishing a new baseline for First Nation engagement	<ul style="list-style-type: none"> - How have communities interests been represented by NFMC operations and decisions? - Have Aboriginal economic development opportunities been developed? 	<p>Establish benchmark for current levels</p> <p>Targets to be determined</p>
Engaging the community in forestry	<ul style="list-style-type: none"> - How have communities interests been represented by NFMC operations and decisions? 	<p># of Events attended</p> <p># of Newspaper Articles</p>

10.0 Financial Budget and Staffing

NFMC budgets for all operating and capital expenditures along with a forecast of revenues to be achieved. The Forest Renewal Trust and Forestry Futures Trust programs (including the LFMC Conversion Program and the forest resource inventory component) will continue to be funded by the applicable portion of the Ontario Crown stumpage matrix applied to all volumes of wood sold from the NFMC management area.

It is important to note that the current forecasts and budget assume wood sales at the stump which represents 100% of NFMCs current operations. While it is expected that over the projection period NFMC will begin to build capacity and develop its wood sales program including open market sales the impact of this program is not included in the current projections. The estimated financial impact of implementing a more involved wood sales program is not expected to negatively or positively impact profitability of the agency however it would result in a significant impact on the projected revenues, costs and cash flow associated with harvesting, processing and delivery of wood to the mills. During the projection period, NFMC will evaluate the impact on its finances of implementing any open market wood sales or sale at delivered prices on a case by case basis before proceeding to ensure that it does not add significant risk or exposure to its operations.

Expenditures, Projected Revenues, Funding Requirements

Expenditures for NFMC began to incur in February 2013 once the official Board of Directors was put in place. Total expenditures (including road maintenance and forest renewal expenses) of \$ 2,619,879 were incurred in 2013/14. The company's operating costs for 2013/14 were approximately \$600,000 (excluding roads and renewal costs). Expenditures are expected to rise as NFMC transitions staffing from MNR and ramps up its own human and financial resources to fulfil its obligations and responsibilities under the SFLs. Total expenditures are estimated at approximately \$1.8 million in 2014/15 under the Big Pic and Pic River SFLs and to \$2.7million in 2015/16 and beyond once the Nagagami and White River SFLs are transitioned. Start-up financing from the Forestry Futures Trust's – LFMC Conversion Program will be available to "capitalize" the agency and support its working capital needs during the start-up period until NFMC assumes the SFL's.

Revenues began flowing to the Agency in April 2013 and coincided closely with the issuance of forest resource licences by MNR. In 2013/14, NFMC generated \$449,742 in administration fees for volume delivered during the year. For 2014/15, NFMC is estimating administration fee charges of \$706,000. Revenues from stumpage for NFMC are forecast to begin in the fall 2014 following the issuance of forest resource licences for the Big Pic and Pic River forest resource licences to the Corporation. Total revenues, of approximately \$2.2 million (including the available FFT funding) were generated in 2013/14. NFMC will derive its revenues from the sale of Crown timber from its defined management area consistent with the approved revenue model for LFMCs. Total stumpage revenue, of \$2,500,000 (not including the start-up funding from Forestry Futures Trust) is estimated in 2014/15 rising to \$3,400,000 by 2015/16. These revenues are based on projected annual harvest volumes for all species and products of 690,800 cubic metres and 900,000 cubic metres in 2013/14 and 2014/15 respectively.

As part of the total revenue noted above, start-up funding of up to \$1.78 million has been identified (through FFT funding) to support the initial capitalization and start-up expenditures of NFMC. Due to the slower than anticipated transition of the SFLs to the Agency and the resulting prolonged redirection of the former CRF stumpage revenues from the NFMC management area into the LFMC Conversion Program account, total funding from the program is projected to increase to approximately \$6.4 million. This total reflects the revenue that the Agency would have received directly if the SFLs would have been issued as per the original schedule. NFMC will be pursuing a revised application to MNR and the Forestry Futures Committee in 2014 to ensure the funding is made available to bridge NFMC operations through the projection period while it puts in place the necessary mechanisms to implement its intended revenue model.

Table 6 summarizes the projected revenues, expenses and net income for NFMC as they relate to the harvesting targets outlined in Table 7 below. Further details regarding the forecasts can be found Appendix II.

Table 6. Summary of NFMC projected revenues, expenditures and net income

	2013/14	2014/15	2015/16	2016/17
Revenue	\$1,758,997	\$4,897,586	\$8,481,645	\$8,083,307
Expenditures	\$988,072	\$1,895,103	\$2,775,796	\$2,922,880
Net Income*	\$770,925	\$3,002,483	\$5,705,849	\$5,160,427
Total Available Cash	\$620,931	\$3,132,752	\$8,064,623	\$13,169,051
Interim Funding-Provincial Roads Program**		\$750,000		
Operating Reserve (cumulative)***	\$250,000	\$1,500,000	\$6,000,000	\$10,000,000
Strategic Initiatives (annual)****	0	\$500,000	\$1,000,000	\$1,000,000
Available Operating Cash	\$370,931	\$382,752	\$564,623	\$669,051

* Net Income does not include contributions to an operating reserve or other strategic initiatives that may be pursued by NFMC

** Interim funding to support eligible road construction and maintenance costs until Provincial Roads Program allocations are finalized

*** Projected operating reserve funding only; actual amount will vary subject to specific cash flow /operational needs

****Allocation not included in financial statements; for earmarking purposes only, strategies/programs to be developed by NFMC

It is important to note that the above projections of Net Income do not include contributions to an operating reserve or other strategic initiatives that the corporation may undertake to further achievement of its objects. Funding for these initiatives would need to come from Net Income as indicated in the table above and further described in the text below.

In accordance with its approved revenue model, NFMC is required to establish an operating reserve to ensure the Corporation has sufficient cash flow to manage its responsibilities and business needs during periods of reduced demand or unexpected shifts in the areas wood markets. Contributions to the operating reserve would need to come from Net Income and NFMC expects to be in a position to have sufficient operating funds available to begin establishing this operating reserve by the end of the 2013/14 fiscal year. The size of the operating reserve will vary based on the business needs of the corporation and will need to be flexible to accommodate changes in the business cycle and/or financial needs of the corporation. Based on the current cash flow projections it is possible that the agency could be in a position to have \$10,000,000 set aside in its operating reserve by the end of the 2016/17 fiscal year. This amount represents ~3.4 years of operating costs and would also allow the corporation some flexibility to demonstrate its ability to manage/fund any outstanding obligations that it may agree to as part of the SFL transition discussions with the MNR and current licence holders (i.e. the corporation may want to consider utilizing a portion of this reserve to deal with outstanding obligations or liabilities under its SFLs once they are issued/transferred).

In addition, an annual allocation of funding has been earmarked beginning in 2014/15 to support the development of strategic initiatives for the corporation consistent with its objects. These strategic initiatives are still in development as previously described in Section 3.0 above and could, as an example, include opportunities to fund forest research and development, bursaries, cultural activities, educational/capacity building programs and support opportunities for local and aboriginal economic development. Please refer to Section 12 below for some detailed examples of initiatives currently being explored by the agency.

Table 7. NFMC Harvesting Targets

Program	Annual Targets				
	TREES 2012/13	Estimated 2013/14	Estimated 2014/15	Estimated 2015/16	Estimated 2016/17
Harvest (cubic metres)					
Conifer	415,000	817,937	1,290,000	1,335,000	1,335,000
Hardwood	82,000	76,745	79,800	79,800	79,800
Biomass	41,000	100,227	170,000	175,000	175,000
Total	538,000	994,909	1,539,800	1,589,800	1,589,800

Capital Expenditures

All capital expenditures are fully funded from NFMC start-up funding and/or NFMC revenues generated from the sale of wood from the NFMC management area. Past and planned capital expenditures are presented in Table 8 below. In 2013/14 the company spent \$22,000 on computer equipment and software, and the estimate for 2014/15 is \$75,000 in capital expenditures were associated with establishing the office in Marathon and included expenditures for office and computer equipment and a contribution towards necessary leasehold improvements. For the current planning horizon, NFMC is budgeting ~\$75,000 to \$100,000 annually for capital expenditures (the model assumes \$50,000 is spent on capital annually) associated with the Corporations needs for computer, office equipment and vehicles/other equipment to meet its operational needs.

Table 8. NFMC Capital Expenditures

Capital Item	\$(000s)			
	2013/14	2014/15 Budget	2015/16 Budget	2016/17 Budget
Roads & Bridges	-	-	-	-
Office Equipment		\$35,000	\$25,000	\$25,000
Computer Equipment	\$22,000	\$50,000	\$25,000	\$25,000
Vehicles/Equipment	-	\$50,000	\$50,000	\$50,000
Total	\$22,000	\$135,000	\$100,000	\$100,000

Staffing

The General Manager (GM), hired by and reporting to the Board, is responsible for the day-to-day management of the NFMC. The GM is responsible for development and implementation of the operational plan for the agency and would have the flexibility to determine whether delivery would be done by in-house staff or through service providers based on its individual business conditions.

Staff Numbers:

NFMC has five professional and staff hired on a permanent basis, and one staff member on contract. The positions include:

- General Manager
- Finance Manager
- Administrative Assistant
- Forestry Planner
- Operations Forester
- Silviculture Forester (contract)

NFMC may require staff temporarily to set up the office and accounting systems, identify computer resources, arrange for data transfer. Contract staff may be required to assist with agency business requirements to allow issuance/transfer of the applicable sustainable forest licences. In the long term, it is expected that NFMC will require additional staff to support the activities of forest management, marketing and selling of wood, and forest compliance in preparation for the SFLs being issued to NFMC.

NFMC will determine the appropriate mix of permanent and contract staff to be flexible enough to meet varying forest management planning and operational demands of the applicable forest management units at different times in the forest management planning cycle. This flexibility will also be an important tool for the General Manager to manage start-up costs and operational risks associated with the current business climate in the NFMC management area.

11.0 Information Technology/Electronic Service Delivery Plan

NFMC is exploring the implementation of a wood tracking and inventory system to support and enhance information, tracking and control of Crown resources moving from its operations. NFMC has initiated discussions with a provider of an existing software program used by other large forestry operations in the Province, including one of its main harvesting contractors and plans to move forward with implementation of an appropriate wood tracking and inventory system in 2014/15.

Currently, NFMC is outsourcing much of its forest management and geographic information system (GIS) IT needs from established service providers. In 2014/15, NFMC will be undertaking a process to determine its future IT needs as they relate to the company's longer term organizational structure and core business activities.

12.0 Initiatives Involving Third Parties

Currently, the financial model does include limited expenditure allocations for initiatives involving third parties during the planning period. Expenditures of approximately \$40,000 annually have been identified in 2014/15 and beyond to support public relations and advertising for wood sales. It is expected that NFMC would use this

allocation to enter into commitments with third parties to support activities that further its objects. Some examples of these commitments include forest research and development, bursaries, cultural activities and educational programs.

Other initiatives involving third parties that NFMC is pursuing include,

Forest Certification

Obtaining forest certification has been identified as a priority for NFMC in order to support the sale and marketing of available wood supply from the management area. NFMC's key customers have indicated a strong desire to have certified wood available under one or both of an Forest Stewardship Council (FSC) or a Sustainable Forest Initiative (SFI) certification system. NFMC is currently working in partnership with AV Terrace Bay to achieve Forest Stewardship Council certification on the Big Pic forest in 2013/14 with certification on the other forest to be considered in the future. An allocation of \$130,000 per year has been identified to support certification efforts as well as \$30,000/forest per year allocation for forest certification maintenance activities.

Local and Aboriginal Community Development Initiatives

The NFMC model was initiated and developed in collaboration with local and Aboriginal communities with the understanding that the Corporation's objects would support the development of local and Aboriginal economic development opportunities within the management area. While no specific initiatives have been identified an allocation of \$500,000 in 2014/15 has been earmarked to support any further strategies that may be developed, NFMC intends to develop necessary strategies and explore opportunities to move forward with local and Aboriginal economic development opportunities as they arise.

Negotiation of SFL Obligations with MNR (Big Pic and Pic River forests) and current SFL holders (Nagagami and White River forests)

Currently, there are a number of outstanding obligations on each of the forests in the NFMC management area related to silviculture, roads, gravel pits, etc. These obligations and the extent to which NFMC will take these on, or strategies which NFMC may put in place to address, are being discussed with MNR and the applicable SFL holders and must be agreed upon prior to the issuance/transition of each SFL to the company. The current budget does not include a specific expenditure or allocation for the assumption of these obligations however one potential strategy could involve utilizing a portion of the operating reserve to fund/manage any outstanding obligations. While this is just one example of a strategy that may be pursued, NFMC will need to carefully assess the impact of any outstanding or future obligations on its financial plan going forward.

Once the SFLs are issued/transitioned to NFMC, the corporation will follow the requirements outlined in the applicable forest management plan(s) and consistent with

any approved compliance plan(s) that may be in place when conducting its forestry operations. These costs have been incorporated into NFMCs forecasted budget of operating expenditures for the planning period.

Forest Resource Inventory Project

NFMC has initiated discussions with CRIBE (Centre for Research and Innovation in the Bioeconomy) related to a partnership opportunity for an enhanced Forest Resources Inventory project on the NFMC management area. While no specific commitments have been made by NFMC in this regard, a partnership opportunity may be considered in the future to move forward on this opportunity.

13.0 Implementation Plan

This business plan identifies the staged development and transition of SFLs on the four management units to NFMC. Two management units (Big Pic and Pic River) are currently being managed by NFMC through enhanced Forest Resource Licences issued by MNR while the other two (White River and Nagagami) continue to be managed by the existing SFL companies.

NFMC is continuing to negotiate the issuance of the SFLs for the Big Pic and Pic River forest with the MNR. In this regard, an SFL Business plan was submitted to MNR in July of 2013 and NFMC expected SFLs to be issued by the spring of 2014. This target date was not achieved, and discussions are underway related to the outstanding obligations on the two forests with a new target date of spring 2015.

Once the parameters to secure the Big Pic and Pic River SFLs are established, NFMC will be negotiating the transfer of the White River and Nagagami SFLs with White River Forest Products and Nagagami Forest Management Inc in 2014/15 and it is anticipated to be completed on or before the winter of 2015, at which time NFMC will become responsible for undertaking the forest management activities on those forests.

14.0 Communication Plan

NFMC is targeting to maintain a medium profile for communications activities over the planning period, with a specific emphasis on relationship building during the 2014/15 fiscal year.

The Agency has identified the following communication objectives to support this plan:

- Provide accurate & timely communication for customers, suppliers, Board & staff
- Enhance awareness through stakeholder engagement
- Anticipate and mitigate potential issues including local and Aboriginal economic development concerns

Key messages to support these objectives include:

- NFMC is open for business and our wood is competitively-priced
- Working with our industry partners is key to creating a prosperous environment
- Maximizing value from the forest
- Committed to economic development opportunities to Aboriginal communities
- Partnerships will lead to innovative initiatives

A summary of proposed communication tactics and products to be implemented by NFMC beginning in January 2014 is provided in Table 9 below.

Table 9. Proposed communication tactics and products

Event	Communication Tactics/Products	Target Date
Announcement of permanent General Manager	- News release from the Board - Letter/email to stakeholders, MNR and staff - Website update with photo	January 2014
First year anniversary, combined with office grand opening	- Invitation to Minister to attend open-house celebration - Invitation to stakeholders and staff - MNR news release (Minister's announcement) or NFMC Board photos/visuals	March 2014
2012/13 Annual Report	- News release highlighting milestones - Website	April 2014
Website	- NFMC related news items as they arise - Procurement/tenders - Job opportunities - Notes from Board meetings (summary of minutes only) - Annual report - Policies - Companies/suppliers web links	Ongoing
Branding – logo	- News release (opportunity to raise awareness, profile and brand recognition) - Email/memo to staff, MNR and stakeholders - Add to website and all relevant material e.g. letterhead, templates, business cards, signs, etc.	May 2014
Stakeholder engagement	- Stakeholder Advisory Committee - Local/regional participation through speaking opportunities (eg. Chambers of Commerce, town/FN council meetings, Community events, etc) - Observers at Board meetings	Ongoing
MNR	- Regular updates with key staff - Regular meetings with MPPs and Minister	Ongoing
Internal communications	- Regular staff meetings/emails - Staff recognition	Ongoing

15.0 Organizational Chart

NFMC will determine the appropriate mix of permanent and contract staff to be flexible enough to meet varying forest management planning and operational demands of the applicable forest management units at different times in the forest management planning cycle. This flexibility will also be an important tool for the General/Transition Manager to manage start-up costs and operational risks associated with the current business climate in the NFMC management area.

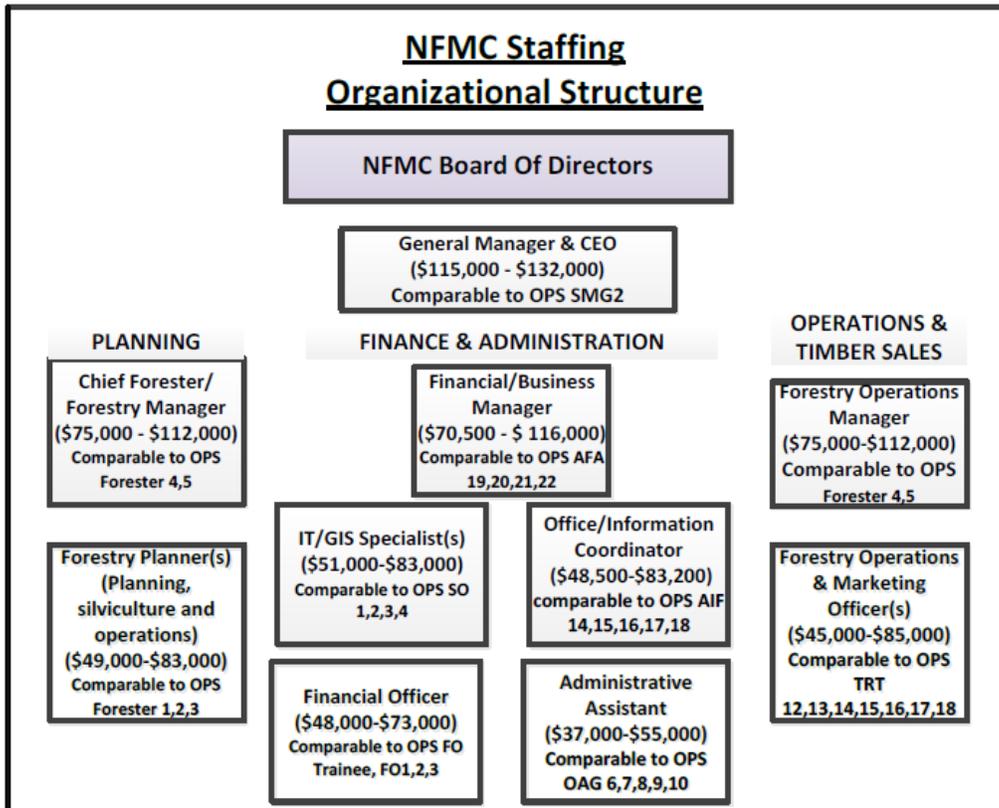
Organizational Chart:

Please refer to Appendix I “Example Organizational Charts” for more details on potential operational structures and associated staff complements for NFMC.

BUSINESS PLAN APPENDIX I - Example Organizational Chart

NFMC could operate under a range of employment scenarios involving the hiring of all internal staff or subcontracting out all or a portion of the work required. This is ultimately a decision that the Board and General Manager and will need to determine as part of the business and operational planning processes as the organization matures. Figures 1 below provides a summary of the potential organizational structure for NFMC outlined in the compensation strategy.

Figure 1. NFMC Organizational Structure:



As per Section 15 Organizational Structure, the NFMC could implement a range of employment models. Ultimately, the decision on which model to employ will be at the discretion of NFMC management. Preliminary financial modelling indicates that the difference in cost between the employee and contractor model is fairly negligible and as a result, the accompanying financial statements assume scenarios involving the employee model.

BUSINESS PLAN APPENDIX II - NFMC “Projected Financial Statements”

Nawiinginokiima Forest Management Corporation

Projected Statement of Financial Position

Actuals for Quarter ending September 30, 2013

Forecasts for Fiscal Years 2013/14 to 2016/17

	ending Sept 30/13	2013/14	2014/15	2015/16	2016/17
Current assets:					
Cash	\$ 229,190	620,931	3,132,751	8,064,622	13,169,050
Accounts receivable	389,426	104,873	553,211	1,291,529	1,315,411
Inventory	0	0			
Prepaid expenses	0	0	0	0	0
	618,616	725,804	3,685,962	9,356,151	14,484,461
Capital assets					
Capital assets	0	45,500	95,500	145,500	195,500
Less Depreciation		-379	-8,054	-22,396	-40,279
	\$ 618,616	770,925	3,773,408	9,479,255	14,639,682
Liabilities and Net Assets					
Current liabilities:					
Accounts payable & accrued liabilities	\$ 162,009	0	0	0	0
Net assets:					
Unrestricted	456,607	520,925	1,523,408	3,479,255	4,639,682
Restricted (operating reserve*)	0.00	250,000	2,250,000	6,000,000	10,000,000
	\$ 618,616	770,925	3,773,408	9,479,255	14,639,682

* The size of the operating reserve could vary based on the business needs of the corporation and will need to be flexible to accommodate changes in the business cycle and/or financial needs of the corporation.

Nawiinginokiima Forest Management Corporation

Projected Statement of Operations

Actuals for Quarter ending September 30, 2013

Forecasts for Fiscal Years 2013/14 to 2016/17

	ending Sept 30/13	2013/14	2014/15	2015/16	2016/17
Revenue:					
Administrative Fees & Stumpage	\$ 109,948	\$ 492,375	2,577,870	5,868,793	6,066,330
LFMC Conversion Program	450,000	1,150,000	1,810,000	2,000,000	1,384,000
Silviculture Charge Back	0	0	447,292	612,852	632,977
Standing Timber Sales	0	0	0	0	0
Roads Program Charge Back	111,948	116,622	62,424	0	0
Other	0	0	0	0	0
	671,896	1,758,997	4,897,586	8,481,645	8,083,307
Expense:					
Ops Planning, Permits, Commpliance	3,662	21,931	28,091	57,305	58,451
Crown timber stumpage charges	0	0	0	0	0
Forest Certification	26,229	128,229	161,262	196,323	232,723
Public access road maintenance	116,622	116,622	62,424	127,345	129,892
Forest Management and GIS Services	600	16,920	85,313	120,977	123,398
Other Direct Costs	4,500	0	0	0	0
	151,613	283,702	337,090	501,950	544,464
Operating income	520,283	1,475,295	4,560,496	7,979,695	7,538,843
Administrative and other:					
Salaries and benefits	0	258,570	642,447	658,055	671,216
Amortization of capital assets	0	379	7,675	14,342	17,883
Bad Debt	0	46,689	148,260	360,049	423,088
Office Expenses	6,319	41,529	60,863	120,978	123,397
Accounting, Legal, IT & Contract Services	232	170,514	399,098	714,829	729,127
Board of Directors' expenses	39,211	85,111	93,636	31,836	32,473
Insurance	8,100	8,100	12,485	12,734	12,989
Motor Vehicle Expenses	0	38,250	99,705	265,302	270,608
Staff travel and training	588	17,850	36,414	37,142	37,885
Advertising and Promotion	8,633	28,523	40,576	41,387	42,215
Other	593	8,855	16,854	17,192	17,535
	63,676	704,370	1,558,013	2,273,846	2,378,416
Excess (deficiency) of revenue over expenses*	\$ 456,607	\$ 770,925	3,002,483	5,705,849	5,160,427

* Expenditures on strategic initiatives identified in Sections #10 and #12 are not included in the current projections and would need to be funded out of excess revenues identified above.

Nawiingini Forest Management Corporation

Projected Statement of Cash Flows

Actuals for Quarter ending September 30, 2013

Forecasts for Fiscal Years 2013/14 to 2016/17

	Actual ending Sept 30/13	Forecast			
		2013/14	2014/15	2015/16	2016/17
Cash flows from operating activities:					
Excess (deficiency) of revenue over expenses	\$ 456,607	770,925	3,002,484	5,705,847	5,160,427
Amortization of capital assets	0	379	7,675	14,342	17,883
	456,607	771,304	3,010,159	5,720,189	5,178,310
Change in non-cash working capital:					
Accounts receivable	(389,425)	(104,873)	(448,338)	(738,318)	(23,882)
Inventory	0				
Prepaid expenses	0				
Accounts payable & accrued liabilities	162,009	0	0	0	0
	(227,416)	(104,873)	(448,338)	(738,318)	(23,882)
Cash flows from financing activities:					
Capital contributions received	0				
Cash flows from investing activities:					
Acquisition of capital assets	0	(45,500)	(50,000)	(50,000)	(50,000)
Proceeds on sale of capital assets	0	0	0	0	0
	0	(45,500)	(50,000)	(50,000)	(50,000)
Increase (decrease) in cash					
	229,191	620,931	2,511,821	4,931,871	5,104,428
Cash, beginning of year	0	0	620,931	3,132,752	8,064,623
Cash, end of year	\$ 229,191	620,931	3,132,752	8,064,623	13,169,051

* contribution to the operating reserve or other expenditures on strategic initiatives identified in Sections #10 and #12 are not included in the projections and would need to be funded out of the "available" cash identified above.

BUSINESS PLAN APPENDIX III - NFMC “Key Financial Assumptions”

Wood Sale Volumes:

- Projected based on a modest recovery in utilization from the currently depressed levels in the management area and is predicated on the forecasted strengthening of key forest product markets.
- The ability of NFMC to meet the volume projections relies largely on the continued operation of three to four main customers including the AV Terrace Bay pulp mill.

Sales Revenue:

- Revenue factors based on the current rates being remitted to the Consolidated Revenue Fund (under CFSa S. 31) plus a \$1.00 per cubic metre administration fee.
- Revenue projections are based on a close approximation of the current cost of wood to industry.

Silviculture Charges:

- Assumes the percentages permitted within the Trust agreement based on eligible costs incurred by NFMC in the delivery and management of the silviculture programs.

Forest Resource Inventory:

- Expensed as per current provincial approach that would see province recover this money through an increase in the FFT charge for a portion of the year. Model assumes the province collects the \$10 million by end of September & the charge would revert back to standard FFT rates effective October 1.

Provincial Roads Program:

- Assumes a direct flow through to harvesters and mills and an NFMC allocation of \$30,000 per forest per year. *Note in 2013/14, NFMC covered some costs that would have been flow through due to delays in implementation of the roads funding program.*

Allowance for Doubtful Accounts:

- For modelling purposes, 7% of total revenue is estimated to be uncollectable and is expensed monthly. Going forward, an allowance for doubtful accounts will be established that is 7% of accounts receivables.

Start-Up Financing:

- Assumes availability of up to \$6.4 million in the Forestry Futures Trust to be accessed by NFMC following a pre-determined application process; Funding is non-repayable and treated as equity
- Made available over the planning period (2013/14 to 2016/17) based on achievements of pre-identified and approved milestones and will include an initial pre-flow to capitalize the agency.

Forest Certification:

- Forest certification efforts undertaken beginning on the Big Pic Forest in 2013/14 and assumes one forest per year for 2014/15, 15/16 and 16.171

Staffing:

- Assumes hiring of five staff in 2013/14 to support operations including the full time GM in February 2013 followed by one additional staff for a total of 6 staff in 2014/15. An allocation for additional staff/contract service providers also available to coincide with transition of the SFLs to NFMC.

Capital Expenditures:

- Projections include capital expenditure of \$50,000/annually for equipment (\$45,500 in 2013/14)

Operating Reserve:

- Projections of Net Income do not include contributions to an operating reserve which will be established to cushion NFMC from periods of reduced demand.

BUSINESS PLAN APPENDIX IV – Compensation Strategy