

Nawiinginokiima Forest Management Corporation

AGENCY BUSINESS PLAN

for the period

2016/17, 2017/18 and 2018/19

Confidential

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AGENCY Business Plan

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1.0 Executive Summary

Nawiingnokiima Forest Management Corporation (NFMC) is the first Local Forest Management Corporation (LFMC) 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 in accordance with the Agency Accountability Directive (AAD) and the Guide to Developing Business Plans for Classified Agencies describes the corporation's mandate, priorities, programs and activities and provides a financial budget for the next three years.

NFMC's operations are related to the delivery of forest management and harvesting programs, guided by the requirements of the Crown Forest Sustainability Act (CFSA), the OFTMA and approved forest management plans for the applicable management units. NFMC budgets for all operating and capital expenditures along with a forecast of revenues to be achieved. The forest renewal program is funded by the renewal portion of the Ontario Crown stumpage matrix, which goes directly in management unit specific forest renewal trust fund.

Two management units (Big Pic and Pic River) are currently being managed by NFMC through Enhanced Forest Resource Licences (EFRL) issued by MNRF while the other two (White River and Nagagami) continue to be managed by the existing SFL companies. It is anticipated that the Big Pic and Pic River SFL's will be issued to NFMC at the start of 2017-18 as well as the transfer of the White River SFL at approximately the same time. The financial results for 2016-17 are based only on the Big Pic and Pic River, while the 2017-18 are based on the results for the three SFL's, which is in contrast to 2014-15 and 2015-16 which is based only on the Big Pic and Pic River. The results for 2018-19 are based on all four SFLs.

NFMC is a self-financing operational enterprise Crown agency and primarily derives its revenues from the sale of Crown timber from its defined management area consistent with the government-approved revenue model for LFMCs. There are two main components to NFMC's general revenue – administrative fees charged on wood deliveries to mills and the former consolidated revenue fund (CRF) portion of stumpage from the wood harvested. Currently NFMC generates revenues directly from administration fees from the Big Pic and Pic River management units. The amount collect in 2015-16 was \$541,597 the forecast for 2016-17 is \$555,000.

The other revenue source, the former CRF component of stumpage, is currently going to a trust administered by Forestry Futures Committee (FFC). The revenues from the former CRF portion of stumpage are forecast to begin flowing directly to NFMC in 2017-18 following the issuance of sustainable forest licences for the Big Pic and Pic River forests, and the transfer of the White River Forest SFL to the Corporation. The transition is expected to be completed in the 2018-19 when the final SFL for the Nagagami Forest is transferred to the agency. No LFMC conversion revenue (funding from Forestry

Futures Trust) was received in 2015-16, the NFMC is estimating \$1,100,000 to be received in 2016-17.

NFMC generates sufficient funds from operations to cover renewal activities and address the silviculture obligation. The Big Pic Forest is currently above minimum balance and it is expected the amount above minimum balance will continue growing in 2016-17-2018-19. The Pic River Forest is currently below minimum balance, largely due to the lack of harvest activity over the last few years. NFMC is accepting the unit from the MNRF with the deficit and will begin addressing the shortfall, including by increasing the harvest levels on the unit resulting in more contributions to the trust fund. The MNRF has requested NFMC to amalgamate the two units, it is expected that the amalgamation will occur in 2019. The deficit on the Pic River will be eliminated through amalgamation since the projected amount above minimum balance on the Big Pic is higher than the projected deficit on the Pic River. The White River Forest is currently above minimum balance and it is expected that when the SFL is transferred to NFMC it will still be above minimum.

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. Total expenditures (including road maintenance and forest renewal expenses) for 2015-16 were \$3,810,556. NFMC hired staff to manage silviculture and perform GIS tasks which will result in an increase in costs in 2015-16. Start-up financing from the Forestry Futures Trust's – LFMC Conversion Program are available, if required, in 2016-17 to "capitalize" the agency and support its working capital needs until NFMC assumes the SFL's.

2.0 Mandate

Nawiinginokiima Forest Management Corporation (NFMC) was established through regulation under the *Ontario Forest Tenure Modernization Act, 2011 (OFTMA) on May 29, 2012 (per Regulation 111/12)*. The (OFTMA) outlines the generic structure for a Local Forest Management Corporation (LFMC) and sets out its key attributes including requirements for corporate matters, board of directors, general powers, general manager and employees, financial matters, etc. The OFTMA also 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.

Consistent with OFTMA and the objects of an LFMC, as described in the Act, the Board of Directors has further described the mandate for the NFMC 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, and
 - 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.

A Memorandum of Understanding (MOU) between the Minister of Natural Resources and Forestry (MNRF) and the NFMFC Board of Directors clarifies the roles, responsibilities and operating relationships, consistent with the OFTMA and the AAD.

3.0 Strategic Direction

In September 2013, NFMFC 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. At that time, the Board confirmed the five-year preferred future, ensuring the Corporation focused primarily on:

- being driven by the interests of the community,
- generating a high level of innovation,
- driving economic development in the region, and
- providing effective governance and management of the forests.

As part of that exercise, NFMFC 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

The board and general manager met in May 2014, to take the next steps in clarifying the strategic direction for the Corporation, with the focus on the next 12 to 18 months. Over the day, the assembled group shared their perspective on:

- where NFMFC needs to be in the next year – the “preferred future”;
- the near-term critical success factors to make that preferred future a reality;
- the strategic initiatives that need to be launched – or continued – to realize the preferred future in the set time frame; and
- the next steps to build and sustain momentum towards the near term preferred future.

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 Strategic Initiative Policy developed
	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	Strategic Initiative Policy developed
Economics	Economic Development Strategy	Established Procurement policy Other tools to be developed Established Strategic Initiatives policy
	First Nation Economic Development Strategy	Draft Procurement policy under development Other tools to be developed Established Strategic Initiatives policy
	Maximizing Value from the Forest Strategy	Long-term MOAs with customers Available wood supply report Established Strategic Initiatives policy
	Financial Management & Reinvestment Strategy	Building stable and sufficient cash flow Establishment of Operating Reserve Established Strategic Initiatives policy
Marketing	Wood Marketing Strategy	Open market sales program under development Draft policy developed
	Brand Strategy	Draft Communication strategy under development
	Forest Industry Strategy	Long-term MOAs with customers Forest Operations Committee established

During 2016-17, NFMC will continue to move forward with the development of new directions and the implementation of the above noted strategies and strategic initiatives. The group identified seven elements as Critical Success Factors to create the preferred:

STRONG INDUSTRY, GOOD MARKETS – While we cannot directly impact the industry and markets, we can contribute to the financial success of our industry partners by effectively managing, lowering, and containing the renewal fee.

CLEAR PRIORITIES – The Board and staff are clear on what’s most important to accomplish over the next year.

DEDICATED TEAM – Staff and Board members clearly understand and are committed to fulfilling their roles and responsibilities.

EFFECTIVE LISTENING – Through openness, transparency, and patience, we have created an environment of open and productive dialogue with our First Nations, Industry partners, and Community leaders.

CREATIVE SOLUTIONS – As we develop solutions for outstanding problems and challenges, we are fully open to – and are committed to – explore new and different ways to approach them.

ACTIVE PARTNER SUPPORT – We are highly focused on gaining the active support of key partners: the Ministry, industry, municipalities, and First Nations.

INITIATIVE MANAGEMENT – We are effectively managing the initiatives, having assigned a lead person for each initiative – along with ensuring they have the support they need – having set milestones with due dates, and formally tracking progress.

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.

Role of the Board of Directors

The final exercise in the session was to explore the role of the Board and its members. Understanding that Board members have no direct involvement in daily operations, the Directors raised the following points.

The responsibilities of the NFMC Directors includes:

- Supporting the General Manager, through approval of the operating budget, review of progress on strategic initiatives, and assistance in formulating next steps;
- Review and approval of policies, identification of direction, with a focus on moving towards taking initiative rather than being reactive;
- Identification and communication of potential problems brewing in communities, as Directors represent key links between NFMC and the communities (in this light, representative directors are to be kept informed of NFMC higher level activity with their constituents, e.g., meeting with Chief-in-Council or Mayor-in-Council);
- Involvement in communications with communities, e.g., attending meetings with community members; and
- Managing political affairs, e.g., connections with the Minister.

Board members are expected to be knowledgeable, engaged, and present at Board meetings.

In 2015-16 NFMC, started the process to refresh its strategic direction. An initial meeting with the board members and a facilitator was held in the fall of 2015. The discussion was both expansive and productive and will be used to guide the development of the NFMC's new strategic direction, in the near future. As a result, it is expected that in 2016-17 NFMC will develop a new strategic direction building on all the successes it has had in the last two years. This direction will move beyond the establishment of the NFMC and focus on achieving the objects of the company as envisioned by the board.

4.0 Overview of Current and Future Programs and Activities

The NFMC, a classified operational enterprise Crown agency, is 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 four major program areas:

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

Activities of NFMC are guided by the conditions of the licences it holds, consistent with the requirements of the CFSA and the OFTMA.

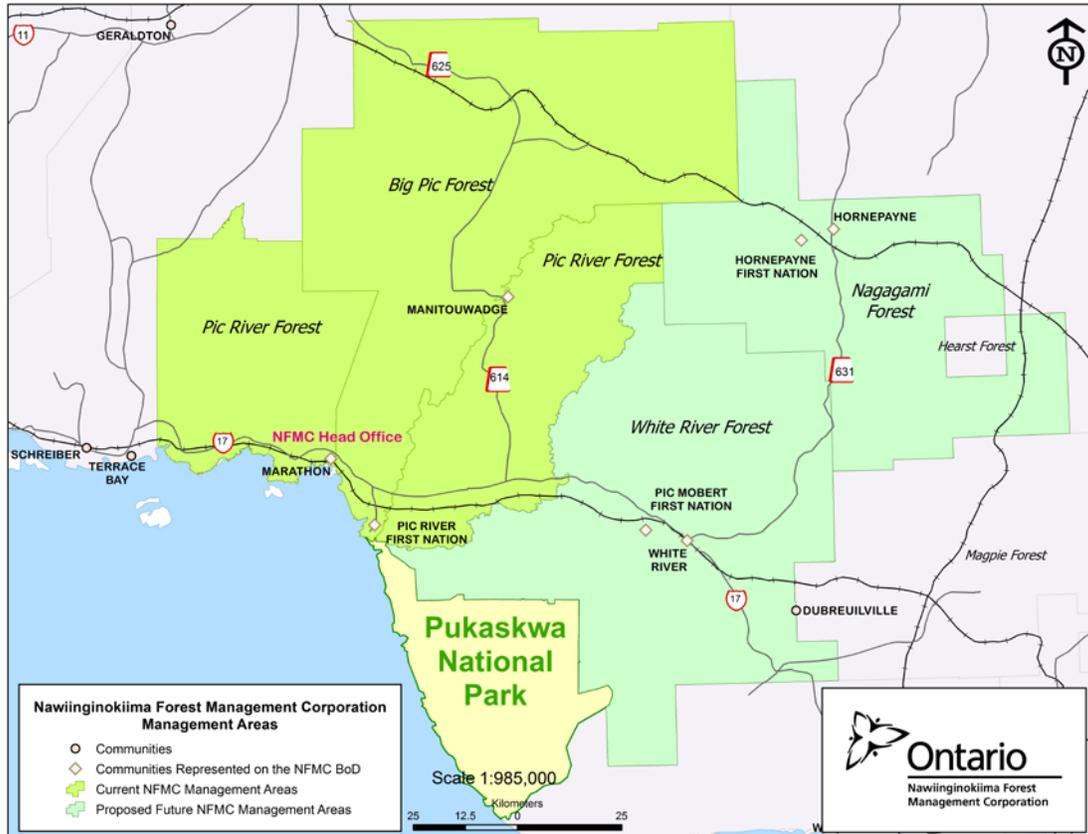
NFMC Management Area

The intent is for NFMC to manage an area that is comprised of four management units – Big Pic, Pic River, White River and Nagagami Forests. See Figure 1. 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). The Management Area includes the communities of the Ojibways of the Pic River First Nation, Pic Moberg First Nation, Hornepayne Aboriginal community, Marathon, Hornepayne, Manitouwadge and White River.

NFMC currently holds forest resource licences on the Pic River and Big Pic Forests. Along with those licences comes the forest management responsibilities for the two forests. NFMC is working towards having sustainable forest licences issued for these two forests at the start of the 2016-17 fiscal year. NFMC is also negotiating with White River Forest Products to transfer the White River Forest to NFMC at the beginning of 2016-17. Once

NFMC has been issued these SFLs, NFMC will work with the current SFL holder to transfer the Nagagami SFL to NFMC.

Figure 1: 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). Currently, NFMC is responsible for implementing the FMPs on the Big Pic and Pic River Forests. Once SFLs are issued to NFMC, they will be responsible for implementing those plans in accordance with responsibilities and conditions of any SFL issued to the Corporation. In addition, NFMC will have a major role in the preparation of new forest management plans for the management area to facilitate ongoing forestry operations.

The MNRF has requested that the Big Pic and Pic River SFL's be amalgamated into a single forest management plan, targeted for April 1, 2019. NFMC and MNRF have started the process for amalgamating the forests, for example public notifications have been sent to stakeholders. NFMC will require a contingency plan because of the different FMP planning cycles for Big Pic and Pic River. In 2015-16, NFMC started the process to prepare contingency plans that will cover the period to March 31, 2019, allowing sufficient time to prepare one 10-year FMP for the amalgamated Pic River and Big Pic Forests. NFMC will begin the process of preparing the amalgamated Big Pic and Pic River 2019 FMP.

The White River Forest has also started preparing an FMP. Work is currently contracted to Jackfish River Forest Management. In 2016-17 NFMC will undertake a strategic review of the forest management planning practices on the White River and Nagagami SFL's. The review will include the status of current and future plans to determine what assets and supports are required.

Forest Operations

NFMC has seen notable success in our relationships with industry, especially as NFMC strives to deliver high quality forest management services at a competitive cost to industry participants. These successes include:

- Memorandum of Agreement documents (MOAs) drafted;
- Completed the FSC certification process on the Big Pic;
- Target the administration fee at \$1.00 and lower the renewal fee to less than \$5.00 through the silviculture program;
- Built and maintained a respectful relationship with industry; and
- Working with other wood users across the province to explore how they might participate and partner with NFMC.

While there has been some improvement, 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.

Over the next three years, 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, such as; developing workforce capacity (in particular with Pic River and Pic Moberg First Nations), developing and delivering training courses, and participating in promotional events to showcase the Corporation. More initiatives 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 wood supply commitments from the management area will be updated as part of the issuance of the sustainable forest licenses. In addition, NFMC management is working with the local mills to determine future needs.

The mills with commitments from Big Pic and Pic River include:

- AVTB 419,700 m³
- Lecours 82,000 m³
- Levesque 22,500 m³
- Haavaldsrud/Hornepayne Lumber 24,000 m³.

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 121,800 cubic metres annually.

All of NFMC's commitment holders are planning major capital investments to increase productivity and demand in 2015 and 2016.

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. NFMC is working to maximize the total fibre volume from the forest and may consider arrangements that make available residual fibre (e.g., sawmill chips) in exchange for roundwood. NFMC management is preparing a wood supply assessment for each mill based on integrating management when the SFL's are all managed by NFMC.

The demand for softwood is growing, however, the lack of markets for hardwood are a challenge. Planned changes at the AVTB mill and operations at Rentech may result in increased demand

NFMC has met with the forest industry to determine projected mill requirements for 2016-17. White River Forest Products, Haavaldsrud and Columbia made capital investments to improve efficiency and capacity.

Table 2. Forecast demand by mill 2016-17 from the Big Pic and Pic River SFL's

MILL	SPF	Po/Bw	Biomass	TOTAL
AV Terrace Bay	296,000		25,000	321,000
Haavaldsrud				
White River FP	86,000			86,000
Lecours	76,000			76,000
Open Market	36,000			36,000
Columbia		30,000		30,000
Atlantic Power			25,000	25,000
TOTAL	494,000	30,000	50,000	574,000

In 2015, Haavaldsrud struggled with production and other issues and announced an indefinite shut down in November 2015 and was put into receivership in April 2016. The mill was recently purchased by Hornpayne Lumber and it was announced that it would restart in the future. Given the uncertainty Haavaldsrud's requested volumes are not included in the forecast for 2016-17. However, Haavaldsrud still has supply commitments that must be considered, especially before wood is made available to other facilities or the open market.

The mills put forward their planned consumption. Some mills requested additional softwood volume, this wood was identified by NFMC and will be made available on the open market to mills that are in good standing (i.e. current on admin fees and stumpage). In addition AVTB has entered into discussions with sawmills regarding exchange agreements allowing the sawmills to access roundwood in exchange for sawmill chips. NFMC will work with all mills to support these agreements.

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.

NFMC's open market wood policy was developed and it hopes to implement open market wood fibre sales once the SFL's are issued. NFMC will sell the wood fibre under its management and control, whether unharvested, in chip, log or biomass form, in an open and transparent manner that maximizes the social, economic, environmental and cultural return to the NFMC and the stakeholders on its forests. NFMC shall engage in two types of timber sales. NFMC will determine whether such wood fibre will be sold "on the stump" or first harvested by NFMC and/or its subcontractors and delivered to the recipient. Such determination will consider the potential purchasers' ability and desire to harvest their own wood fibre, and the ability of NFMC and its subcontractors to harvest the wood fibre itself. Preference shall be given to NFMC harvesting its own wood fibre and delivering to the recipient where practicable in order to maximize returns to NFMC.

A minimum price for timber will be set by the NFMC to ensure it can pay associated Trust charges and recoup its other operating costs. 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 that will be implemented in the next forest management plan. 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. The current MOA developed with the industry is designed to encourage maximum utilization.

Environmental Policy

NFMC recognizes environmental protection as one of our guiding principles and a key component of sound business performance. NFMC is committed to providing quality forest products and related services in a manner that ensures a safe and healthy workplace for our employees and minimizes our potential impact on the environment. NFMC will operate in compliance with all relevant federal, provincial and municipal environmental legislation and NFMC will strive to use pollution prevention and environmental best practices in all NFMC does. NFMC will;

- Integrate the consideration of environmental concerns and impacts into all of our decision making and activities,
- Promote environmental awareness among our employees and encourage them to work in an environmentally responsible manner,
- Train, educate and inform our employees about environmental issues,
- Where required by legislation or where significant health, safety or environmental hazards exist, develop and maintain appropriate emergency and spill response,
- Regularly communicate our environmental program to our clients, customers and the public and encourage them to support it,
- Commit to the advancement of sustainable forest management practices and to the pursuit of Forest Stewardship Council (FSC) certification on the NFMC management area, and
- Strive to continually improve our environmental performance by periodically reviewing our environmental policy in light of our current and planned future activities.

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 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.

The Corporation will also be actively pursuing discussions with MNRF 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, Pic River and the transfer of the White River after the start of 2017-18. 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 roles and responsibilities outlined in the Memorandum of Understanding, which includes adherence to all applicable Acts, policies and government directives. 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. Financial resources available to NFMC

Resource	Details	NFMC goals and objectives	16/17 Amount Available (estimate)	17/18 Amount Available (estimate)	18/19 Amount Available (estimate)
LFMC Revenue Model	Stumpage revenues and admin fees from wood sales remain with NFMC to further objects	<ul style="list-style-type: none"> ○ Sustainable forest management ○ Economic development for communities and Aboriginal people ○ Timber marketing & sales information/data 	\$1,666,320 includes revenue from Big Pic, Pic River	\$5,709,860 includes revenue from Big Pic, Pic River, White River	\$8,536,560 includes revenue from all four SFLs
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"> ○ Reinvesting in & improving the forest asset ○ Sustainable forest management 	\$2,238,000 NFMC estimates a recovery of ~\$300,000 for eligible costs incurred in the delivery of this program	\$3,800,000 NFMC estimates a recovery of ~\$429,280 for eligible costs incurred in the delivery of this program	\$5,300,000 NFMC estimates a recovery of ~\$567,147 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"> ○ Cost competitive, affordable wood supply ○ Continuous and predictable supply 	\$2,300,000 NFMC estimates a recovery of ~\$70,000 for eligible costs incurred under this program	\$2,700,000 NFMC estimates a recovery of ~\$80,000 for eligible costs incurred under this program	\$4,000,000 NFMC estimates a recovery of ~\$100,000 for eligible costs incurred under this program
Operating Reserve	NFMC has established an operating reserve in case of reduced operations on the units	<ul style="list-style-type: none"> ○ Set aside 2-5 years of operating costs in an operating reserve 	\$2,800,000	\$4,800,000	\$6,000,000
Industrial Road Maintenance Agreement	NFMC has signed an agreement with MTO to maintain the Caramat-Manitouwadge Industrial Road	<ul style="list-style-type: none"> ○ Reinvesting in & improving the forest asset ○ Economic development for communities and Aboriginal people 	\$250,000 NFMC operates the contract on a cost recovery basis	\$250,000 NFMC operates the contract on a cost recovery basis	\$250,000 NFMC operates the contract on a cost recovery basis

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 MNRF 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 CFS 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. For a portion of the year, the forestry futures trust charge will include an additional charge for forest resource inventory. 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 MNRF and will ensure that the necessary budgeting and invoicing procedures are in place.

The majority of activities are expected to be funded by direct contractor reimbursement from the Forest Renewal Trust Fund. In these cases, NFMC does not receive funds from the Forest Renewal Trust and these transactions are not recognized as expenses or revenues.

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.

As part of the license issuance to NFMC the company agrees to assume the silviculture obligations on the units. The company will use Forest Renewal Trust Fund and other sources to cover the associated costs.

Forest Access Roads Funding:

As the SFL holder, NFMC is 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 MNRF 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 benefit to the existing licence holders in the proposed management area. The funding level for 2015-16 was \$2,035,273 for the Big Pic and Pic River forests. It is anticipated that the funding level for the two forests is approximately the same in 2016-17. The White River currently has a low funding allocation due to low harvest levels in the previous years when the sawmill was shutdown, as a result NFMC may direct funds as part of an NFMC road infrastructure investment to support the development of the White River Forest road infrastructure. Subject to the program continuing into the future, it is expected that additional funding could be realized in future years with an increase in volume from the White River SFL.

LFMC Conversion Program Funding

The LFMC conversion program was required to initially capitalize the corporation and cover start-up expenses, until the SFLs have been issued and the agency has fully implemented its revenue model. This fund is administered by the Forestry Futures Committee. 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.

This start-up funding was derived from the redirection of the former CRF portion of Crown stumpage on the NFMC management area into a sub-account of the Forestry

Futures Trust (FFT) beginning on June 1, 2012 to be accessed by NFMC to support its start-up. The account balance has continued to grow as fees from the management area are typically higher than amounts withdrawn by the NFMC. The Forestry Futures trust Committee maintains that funds held by the Trust but not released to NFMC perform the function of an operating reserve. The total in the account is estimated to be over \$6 million at March 31, 2016 (Table 4).

Table 4. Estimated funds held by the Forestry Futures Trust for LFMC Conversion by SFL

Forest	2012/13	2013/14	2014/15	2015/16
Big Pic	\$461,838	\$790,375	\$1,141,386	\$1,199,712
Pic River	\$238,407	\$219,404	\$385,239	\$356,462
Nagagami	\$411,219	\$974,717	\$1,470,892	\$1,812,130
White River	\$49,088	\$701,268	\$1,723,474	\$2,820,201
Total	\$1,160,552	\$2,685,764	\$4,720,991	\$6,188,505

Funds will continue to accumulate during the balance of 2016-17. It is estimated that by the end of 2016-17 the total in the account will approach \$8 million, even after planned withdrawals are made. Specifically, the Big Pic and Pic River balance, at March 31, 2017, is estimated at over \$ 2 million and the White River almost \$4 million.

It is planned that the Big Pic and Pic River SFL's will be issued to NFMC at the start of 2017-18, shortly after that the White River will be transferred. Funds that are in the FFT account at that time will be transferred to the NFMC operating reserve. The funds will stop flowing into the FFT account at that time 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 may require an additional application to the Forestry Futures Committee to access funding.

Operating Reserve

The mandate of the NFMC requires operating as a self-financing business, which includes establishing an operating reserve which will ensure continued sustainable in response to variations in economic cycles. The NFMC board passed By-Law #3 in 2014 to establish the operating reserve and set the rules for contributions and withdrawals from the reserve.

Money held in the Operating Reserve shall be used only in a manner consistent with the objects of the Corporation as set out in section 5 of the OFTMA. No money shall be transferred to or from the Operating Reserve without a resolution of the Board.

The size of Operating Reserve shall be equal to at least two years and a maximum of five years of projected operating costs for the Corporation, as shall be determined by resolution of the Board from time to time. It shall be the intention of the Corporation to contribute funds to the Operating Reserve such that the minimum size shall be reached as soon as is reasonably practicable. In the event it shall be necessary to use the Operating Reserve, such use being only for its intended purposes, it shall be the

intention of the Corporation to re-contribute to the Operating Reserve such that it reaches its minimum size as quickly as practicable.

In 2016, the board reviewed the operating costs for the NFMC to determine the appropriate reserve target. The NFMC performs many tasks associated with its mandate that are not required to manage the forests to the standards required by the CFSA. In some cases, NFMC incurs expenses that are directly reimbursed by the Forest Renewal Trust fund or the MTO in the case of the Industrial Road maintenance agreement and should not be included in the reserve calculation. Based on the current operations of the NFMC, managing operations on two SFL's with an office in Marathon the board looked at required staffing and contractor levels as well as expenses such as travel and training to set the bounds for calculating the reserve. The target for the March 31, 2017 balance is a minimum reserve of \$2.8 million. The SFL's for the Big Pic and Pic River are unlikely to be issued to the NFMC before March 31, 2017 and therefore the operating reserve calculation includes funds held in trust for the NFMC by the Forestry Futures Trust Committee. Annually as part of the budget approval process; the NFMC board will review the assumptions used for calculating the reserve and establish a new target for the coming year. More details are available in Appendix III.

Caramat- Manitouwadge Industrial Road Agreement

As part of its broader mandate, the NFMC entered into projects that contribute to local economic development goals. The NFMC has entered into an agreement to assume responsibility for the maintenance of the Caramat-Manitouwadge Industrial Road with the MTO. NFMC will receive payment from the MTO for re-imbusement of costs incurred, including staff time.

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, 2010". The requirements for risk assessments under the risk-based approach are:

- Assessing risks for each agency in each of the specified corporate risk categories;
- Keeping a record of the risk assessments for each agency by risk category; and
- Reporting to TB/MBC on each agency's high risk categories including a description of each high risk, the reasons it is a high risk and what management plan is in place to manage the risk.

Treasury Board defines risk assessment as, “at a minimum, analyzing the risks typically involves assessing the likelihood of the risk occurring and the impact on objectives should the risk occur”. The assessment will enable NFMC to map risks on a quadrant (low risk, low impact; low risk, high impact; high risk, low impact; high risk, high impact) that will assist in prioritizing the risks that need to be the focus of active responses and in assigning responsibility for those risks (e.g., high risk, high impact items would likely be expected to receive active ongoing attention from senior management and the board). Table 5 below provides a summary of the key risks and risk levels associated with this assessment.

Table 5. Risk assessment and management

Risk Category	Risk Element	Assessment		Mitigation Strategy
		Likelihood of occurrence	Impact if realized	
Legal / contractual / compliance	SFLs not issued/transferred (or significantly delayed) - Risk that NFMC does not obtain the SFLs as planned and is unable to effectively carry-out its mandate.	Medium	Medium	NFMC is working closely with MNRF to meet government approval requirements for issuance of Big Pic & Pic River SFLs, and transfer of White River & Nagagami SFLs. Interim FRLs in place on the Big Pic & Pic River until March 31, 2017 and interim arrangement could be pursued to bridge any delays in the issuance/transfer of the SFLs if required.
	IFA audit recommendations - Risk that NFMC is unable to address the concerns identified in the IFA and the license is not extended.	Low	Medium	Pre-emptively address possible IFA issues, develop IFA action plan in conjunction with the MNRF
Strategic	Ability to achieve objects - Risk that strategic plan not completed and business plan does not reflect objectives.	Medium	High	Strategic plan developed in 2014. Plan is reviewed and updated annually.
	Financial stability - Risk that NFMC is unable to market and sell sufficient volumes necessary to generate revenue for the agency.	Low	High	Ongoing monitoring of start-up funding available in the LFMC Conversion Program of the Forestry Futures Trust; Operating reserve established in 2014/15; current balance of \$300,000; projected to reach \$1,600,000 in 2015/16 and \$4,800,000 by 2017/18 NFMC works closely with its customers/harvesters to project and forecast demand and created an annual budget with this input. NFMC monitors/updates throughout the year.
	Ability to meet stakeholder expectations - Risk that this plan and vision will not be achievable or will be inconsistent with original intent.	Medium	Medium	NFMC actively engages with local communities, First Nations and forest industry. NFMC will be reviewed as part of the "Review of Forest Tenure Models" scheduled for 2016-17 NFMC has developed a strategic plan that is linked to achieving its objects as described in the OFTMA. NMFC's Annual Reports refer back to the agency's achievement of the goals and if required plans on

Risk Category	Risk Element	Assessment		Mitigation Strategy
				<p>how to address any shortfalls.</p> <p>The government plans to introduce "mandate letters" for board governed agencies and all provincial agencies are required to undergo a mandate review on a regular basis. NFMC's mandate review is scheduled for 2017.</p> <p>NFMC will put in place stakeholder advisory and forest operation committees.</p>
	Public Image - Risk that NFMC does not garner public support or is viewed negatively by the stakeholders it is intended to benefit.	Low	Low	<p>NFMC has developed a communication strategy included in the business plan. NFMC representatives travel to various communities and engaged in targeted outreach.</p> <p>NFMC provides regular public updates via its website as well as other forums such as interviews with newspapers, participation in tradeshow, etc.</p>
Accountability/ Governance	Ensuring responsible & compliant operations - Risk that NFMC operations are not compliant with applicable rules & regulations.	Low	Low	NFMC has been working closely with District MNRF and its contractors and service providers, including regular meetings with these parties, to ensure requirements are met.
	Internal governance and accountability mechanisms - Risk that internal policies and structure is insufficient to protect interests of the NFMC and the Ministry.	Low	Low	<p>MOU between the NFMC and MNRF outlines roles, responsibilities and accountabilities of both the Agency and MNRF.</p> <p>By-law #1 incorporates the most current conduct & accountability standards for agencies.</p> <p>An Operational Review of NFMC was completed by Internal Audit Division in the summer/fall of 2015. A joint Action Plan will be created to address the recommendations/findings.</p>
	Obligation of Directors - Risk that board members decisions create a liability for NFMC.	Low	Low	<p>NFMC will ensure that all appointees have taken appropriate governance training offered by the Public Appointments Secretariat. NFMC regularly reviews indemnities, insurance; E&O coverage.</p> <p>NFMC regularly reviews indemnities, insurance; E&O coverage.</p>
	Contractual compliance - Risk associated with NFMC entering into various agreements and contracts with third party service providers to facilitate forestry operations including forest management, harvesting, renewal and road building.	Low	Medium	<p>NFMC has a retainer for outside legal support and in specific instances NFMC has obtained outside legal and financial advice.</p> <p>NFMC is working closely with MNRF to ensure appropriate internal policies and procedures are in place to support efficient operations and appropriate use of Crown revenues consistent with NFMC objects and the OFTMA.</p>
	Government reporting requirements - Risk that NFMC fails to fulfil government reporting requirements.	Medium	Low	<p>NFMC is continually developing and improving internal reporting procedures and mechanisms.</p> <p>NFMC and MNRF staff conduct regular meetings to discuss status of reporting requirements and to address other topics as required.</p>
	Financial reporting - Risk that internal policies and structure is insufficient to protect interests of the NFMC and MNRF.	Low	Medium	<p>NFMC produces financial statements annually that are audited by an independent 3rd party (BDO) and included as part of its Annual Report.</p> <p>An Operational Review of NFMC was completed by Internal Audit Division in the summer/fall of 2015. A joint Action Plan will be created to address the recommendations/findings.</p>

Risk Category	Risk Element	Assessment		Mitigation Strategy
Operational	Market – Risk that demand for wood and impact on cash flow.	Low	High	<p>MOU between the NFMC and MNRF outlines roles, responsibilities and accountabilities of both the Agency and MNRF.</p> <p>By-law #1 incorporates the most current conduct & accountability standards for agencies.</p> <p>An Operational Review of NFMC was completed by Internal Audit Division in the summer/fall of 2015. A joint Action Plan will be created to address the recommendations/findings.</p> <p>Ongoing monitoring of start-up funding available in the LFMC Conversion Program of the Forestry Futures Trust;</p> <p>Operating reserve established in 2014/15; current balance of \$300,000; projected to reach \$4,800,000 by 2017/18.</p> <p>NFMC works closely with its customers/harvesters to project and forecast demand and created an annual budget with this input.</p> <p>NFMC monitors/updates throughout the year.</p>
	Regulatory – Risk that environmental guides and policies reduce wood supply.	Medium	High	<p>NFMC works closely with MNR, advocate science based management</p> <p>NFMC ensures staff have appropriate compliance training and experience.</p>
	Contractor - Risk that major contractor unable to supply mills.	Medium	High	<p>Support contractors; attract new contractors; work with mills; recent successes include the expansion of B&M, and contracted harvesting operations by Pic River, Lecours and Longlac</p>
Financial	Stumpage – Risk that customers unable to pay stumpage arrears.	Medium	Medium	<p>NFMC monitors customer payments/balance.</p> <p>Operating reserve established in 2014/15; current balance of \$300,000; projected to reach \$4,800,000 by 2017/18.</p>
	Unforeseen Event – Risk that unplanned events, such as fire/floods/wind or other damage to key infrastructure on the NFMC management area that require immediate financial expenditure by NFMC (e.g. bridge issue).	Low	Medium	<p>NFMC has developed an "Unforeseen Emergency Event" policy that describes a process for NFMC to access funding from its operating reserve in the instance of an emergency event. NFMC's Agency Business Plan and By-Law#3 provide additional details and guidance for the process.</p> <p>Operating reserve established in 2014/15; current balance of \$300,000; projected to reach \$4,800,000 by 2017/18.</p>
	Investment – Risk that funds invested by NFMC lose value.	Low	Low	<p>Implementation of operating reserve by-law</p>
Workforce	Attracting talent - Risk that NFMC is unable to attract qualified personnel to fill vacancies.	Medium	Medium	<p>NFMC has developed a competitive compensation package. The agency has also used professional services for recruitment support, in addition to the strategic use of contractors.</p>
	Employee relations - Risk that employee morale drops and effects agency performance.	Medium	Medium	<p>NFMC has developed Human Resources policies and procedures as well as a joint health and safety program to ensure a safe and productive workforce.</p>
IT & Infrastructure	Development of IT infrastructure - Risk of data loss or security breach impacting critical systems.	Low	High	<p>NFMC has a procurement policy that is applied to tendering for services from qualified vendors with established IT infrastructure.</p>

Risk Category	Risk Element	Assessment		Mitigation Strategy
	Capital asset damage/loss - Risk that a long-term asset is damaged or rendered unfunctional	Low	Low	NFMC periodically reviews its insurance needs as well as establishing an operating reserve that could be used to cover related expenditures if required.
Other	International trade - Risk of NFMC targeted as part of an international trade dispute or negotiation	Low	Medium	NFMC will continue to work with the MNRF to support timber sales policy until market based system can be developed.
	Public relations - Risk of ENGO or other interest groups negatively targeting NFMC	Low	Medium	NFMC has committed to expand (Pic River) and maintain (Big Pic) FSC certification. As well NFMC will address IFA issues and concerns. NFMC will review certification of other SFL's when licenses are transferred (White River & Nagagami currently certified). NFMC regularly participates in tradeshow and events, outreach and update via website to secure support from local communities.

Annually, NFMC completes its Risk Assessment Report and Risk Management Plan and submits it to Management Board according to the Guide to the Risk-Based Approach in the AAD. NFMC also provides quarterly updates through the MNRF.

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 obligation insurance.

7.0 Environmental Scan

Forest Product Market Analysis

The United States is still by far the biggest foreign market for Canada's forest products, accounting for nearly two-thirds of all exports last year. The overseas markets (in particular China) may be shrinking in the year ahead but U.S. housing should continue to rise (although spasmodically) and the Canadian dollar will stay low for the year. On the other hand, the great challenge of the industry for the last century, the softwood lumber agreement will be rearing its ugly head in the next year as the SLA expired in late 2015. Following the end of the agreement both sides are currently in a bridging period that expires in October 2016, after which the United States may seek to have tariffs imposed on Canadian exports. The negotiations are currently at a pause and the framework for the new agreement has not been developed. It is expected the US negotiators will be taking a hardline and some combination of quotas and tariffs are likely.

Forestry CEOs and analysts predict much the same for 2016 as the year before: slow cautious growth.

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.

Despite improving conditions in the five years since the economic crisis hit bottom in 2009, the production of major forest products in North America and Europe is still 10-15% below the average annual output for the four years preceding the crisis (2004-2007). Although recent developments in most forest products markets still do not warrant being labelled as a “recovery”, the industry is looking forward to the promise of increased global demand, pent up domestic demand and the fact that wood products hold many solutions to improving the sustainability of the region’s economy and the global environment.

The lumber and panel sectors are showing signs of recovery as a sustainable recovery in the U.S. housing sector appears to be underway. In North America, the US housing market is still in the early stages of recovery. Spending on private residential construction (single- and multi-family housing) continues to improve, but remodelling is decreasing slightly, as are public expenditures. Several housing analysts project that a robust US housing recovery remains several years away. The Canadian housing market is considered stable.

Although their economy has slowed the Chinese market for lumber, especially spruce pine fir (SPF) offers an opportunity going forward. China is expected to experience a fibre shortfall of 60-80 million m³ (Equity Research Associates (ERA), April 2011). The Chinese market may create a shift as BC and Alberta firms send production overseas that traditionally may have gone to the US. 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. A rebound in prices and profit is expected in 2016 or 2017 and will coincide with the completion of housing inventory correction in the U.S. For the next year, housing starts are expected to remain below pre-recession crisis levels.

The pulp, paper and paperboard market remained in flux as graphic paper capacity continued to be rationalized in Europe and North America – a development that has persisted now for a decade. Chemical market pulp capacity continued to expand in South America, with Southeast Asia being the favoured target market, despite a marked slowdown in investment in new paper and paperboard installations serving rapidly growing economies. These and other changes are resulting in a possibly unprecedented global shift in pulp and paper supply. In the pulp sector, expansions in bleached hardwood kraft capacity in South America are by far the most important factor influencing the market. The decline in the value of the Canadian dollar may improve the situation for Ontario mills in the short term but it will not reverse the long term trend.

In the paper sector, the trend of converting production to paperboard and packaging grades continued. The global pulp, paper and paperboard industry is facing another challenging year. Despite significant capacity closures across several pulp, paper and paperboard grades in Europe, Japan and North America, production capacity is still too

high when measured against falling or static demand for some grades. Recently paper and paperboard production and consumption rose in North America (when compared to the depth of the recession) while graphic paper and chemical woodpulp output fell across all regions.

Pulp demand and prices were undermined in 2015 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 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. Developments in the wood-derived fabric industry continue to support the status of wood as a preeminent sustainable source of fibre for the world's clothing. Wood-derived viscose in its various forms is already an important player, accounting for 6% of the world fabric market. It occupies third place in that market, after synthetics and cotton and ahead of wool.

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 five years.

The movement towards more renewable energy may translate into increased demand for previously unmerchantable fibre produced by harvesting activities. However, the momentum has stalled as concerns around the economics of biomass and 'green' energy have called into question its long term viability. In 2016, the forest biomass market is not expected to contribute to the success of NFMC. The value for forest biomass is so low that it restricts how far biomass can be hauled and it also limits the ability of NFMC to charge stumpage and administration fees.

Overall, factors look favourable for the continued slow recovery of key forest sector markets in the mid to long-term. This sustained recovery presents some upside to the operation of NFMC in 2016 and beyond.

A) Softwood Lumber Mills:

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

1. Olav Haavaldsrud Timber Company/Hornepayne Lumber – 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.

Haavaldsrud 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 Haavaldsrud 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 not operating due to operation challenges experienced in 2015. The province placed the mill in receivership in April 2016 and in August a new owner, Hornepayne Lumber was announced. The outlook for the short-term operation of the sawmill and the proposed expansion is tied to addressing the operational challenges. Haavaldsrud/Hornepayne Lumber is considered high risk and has not been included in NFMC short term operating plans.

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.

The proposed operating level for the mill is 565,000 m³ as per the facility licence but mill has not reached that 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. Currently, 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 log

supplies available on the White River forest supplemented by the Big Pic and Pic River.

White River Forest Products and NFMC have been working together on wood supply arrangements to support a large capital investment in the mill that will result in improved productivity and an increase in demand for wood from NFMC. A portion of 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 to dissolving pulp.

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 NFMC.

The sale of the mill was a positive outcome and a significant opportunity for NFMC. 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 NFMFC 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.).

The primary challenge facing Levesque is getting veneer quality roundwood to the mill, especially since there is no market for the remaining portion of the tree. Levesque has also discussed capital investments that will improve the mill's performance and increased demand from NFMFC.

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’ completed a pellet mill in Wawa and NFMC 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 NFMC operations for additional sales of its available hardwood and biomass fibre

Rentech’s pellet production is expected to begin in a year, after the mill is converted, and will have an output of 360,000 tonnes by 2016. The company has a contract to export pellets to a power generating facility in the United Kingdom which is converting from coal-powered generation to burning biomass fuel. Recently, the UK government made a series of announcements reducing subsidies to green energy programs that may impact the demand for pellets.

2. Atlantic 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. Atlantic 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 Atlantic Power but its operation does present some upside as a potential market for forest biomass from NFMC. The operation is located over 150-200km from the closest forests managed by NFMC 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 NFMC.

These opportunities include:

1. Tembec sawmills in Hearst and Chapleau (located approximately 200km and 300km respectively) – have purchased significant volumes in 2012-13. As local commitment holders restarted the volume to Tembec’s mills has declined.
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 (located 400 km away).

The implementation of the Caribou Conservation Plan policy into the new forest management plan for the Abitibi River Forest resulted in an immediate reduction to the

wood supply of 20% with a steady decline over the next 40 years. This may result in a market for NFMC to mills facing decreased AAC's. While opportunities may continue with the Tembec sawmills and pulpmill, it is unlikely that the Domtar and Resolute pulp and paper mills identified above will be strategically important customers for NFMC operations due to the disadvantage caused by the distance to these facilities from the NFMC 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. The performance of Ontario's economy has lagged the rest of the country for almost a decade. Economists are warning that that unsustainable provincial government deficits are a threat to the provincial economy. The drop in oil prices will slow the growth of the Canadian economy, particularly in the West and Newfoundland. The US economy has proved inconsistent but the risk of recession in the US has decreased as of late with some signs of improvement in areas like consumer confidence, but other areas are positive such as 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.

The 2014 Independent Forest Audit (IFA) on the Big Pic forest identified concerns related to staffing. NFMC is committed to having sufficient staff and/or other resources in place to undertake all responsibilities under the SFLs as they are assumed. NFMC has also developed internal human resources policies (i.e. overtime, travel, etc.) that have been approved by the board. In addition, NFMC has recognized that there is a large pool of knowledge available from consultants and other experts that it can draw from. NFMC will continue to use consultants for specialized tasks where NFMC's staff may not be

experienced or have the resources to complete.

Currently, NFMC is employing contractor staff for the Operations Manager position. The use of contractor staff versus full time NFMC employees is being constantly evaluated. The addition of the White River and Nagagami SFLs may require additional staff positions. Also, NFMC is tasked to develop contingency and amalgamated forest management plans starting in 2016-17; NFMC is reviewing the staffing requirements associated with the increased workload.

Harvesting and delivery of wood to the mills is done by independent contractors. In prior years the mills signed contracts with the contractors and paid them directly for wood deliveries, however, starting in 2015/16 NFMC began to employ a contractor to deliver wood on behalf of NFMC. The mills pay NFMC and NFMC pays the contractor for wood deliveries. NFMC does not have plans to hire production employees for harvesting activities.

NFMC is working to ensure the Corporation's ability to attract and retain talented staff while remaining competitive with comparable compensation levels within industry and government. However, the key to attracting talent will be proving the company is a successful business with a track record of accomplishment and a secure future.

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 and as required under the AAD. Generally, NFMC management will determine if it has done a good job by answering the following questions:

- *Has NFMC moved closer to a more economically efficient system for wood allocation and pricing?*
- *Has wood been made available to new entrants? How much?*
- *Has utilization of available timber over operational period improved and/or new markets been developed?*
- *Have local economic development opportunities been created/supported by NFMC operations?*
- *How have communities interests been represented by NFMC operations and decisions?*
- *Have Aboriginal economic development opportunities been developed?*
- *Are the forests being managed sustainably as per audits/certification standards, etc.?*
- *Have commitments volumes been made available and/or utilized?*

- *Does the Agency have sufficient cash flow to support operations and establishment of operating reserve?*
- *Provision of wood sales and pricing information?*
- *Has the renewal program met or exceeded the commitments made in the approved FMP?*

Examples of how the performance measures relate to the goals of NFMC and the performance targets are outlined in Table 6.

Table 6. NFMC 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? - Has NFMC invested in R&D to improve forest management? 	<p>All forests certified by 2017-18</p> <p>Favourable audit findings</p> <p>Development spending, memberships in organizations such as FERIC, support for education</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? - Has value for money been realized when spending taxpayer dollars? - Are accounts receivable collected in a timely manner? 	<p>\$200,000 to 500,000 of free cash flow</p> <p>\$0.3 million operating reserve by year end 2015-16</p> <p>\$2.8 million operating reserve by year end 2016-17</p> <p>No aged accounts receivable listing beyond 90 days</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>
Meeting governance requirements	<ul style="list-style-type: none"> - Have government directives been followed (ie AAD) - Completion of Annual Business Plan - Risk Assessment Evaluation - Annual Report 	<p>All reports submitted on time</p> <p>Posting of reports to website</p>
	<ul style="list-style-type: none"> - In addition to the AAD, all classified agencies must adhere to - Accountability Directive - Advertising Content Directive - Delegation of Authority Key Directive (MOF) - Government Appointees Directive - Travel, Meal and Hospitality Expenses Directive 	<p>100% compliance with directives</p> <p>Development of relevant NFMC policies</p> <p>Creation of Governance Committee to report to board</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>

The agency uses a more comprehensive set of measures internally, and has the capacity to “drill down” to the details. For example, in the forestry section the company has established a proactive approach with annual project management schedules (i.e. to

make sure legislative requirements are met) and silviculture tracking to make sure performance targets are met.

NFMC has developed provisions for monitoring and dealing with financial and operational non-performance, including members of the company and wood supply commitment holders. The agency's employees are governed by its code of conduct. Third parties are required to follow NFMC standard operating procedures and other rules such as those included in certification documentation when operating on our landbase. NFMC also has policies dealing with financial non-performance, for example the accounts receivable policy provides guidance on how to deal with overdue accounts.

10.0 Financial Budget and Staffing

NFMC is a Crown Agency established by the Ontario Government. NFMC operates on a non-profit basis and is exempt from income taxes under the Income Tax Act. NFMC is self-financing, and does not require funds from government to carry out its activities. Staff are public servants for a "public body", but are not Ontario Public Service (OPS) employees.

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.

NFMC has developed an accounts receivable policy aimed at minimizing the company's exposure to bad debt. In 2015-16, the NFMC stopped deliveries to Haavaldsrud Timber and as a result incurred only a minor expense when the mill went into bankruptcy in 2016.

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.

Table 7. NFMC Harvesting Targets

Harvest (m3)	2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19
	Conifer	481,276	494,000	835,000
Hardwood	30,516	30,000	100,000	105,000
Biomass	55,531	50,000	60,000	63,000
Total	567,323	574,000	995,000	1,358,000

The volume for 2015-16 and 2016-17 are based solely on the Big Pic and Pic River SFL's. It is assumed that the White River SFL will be added the start of the 2017-18 year. The volume targets for 2017-18 are based on three SFL's. It is assumed the Nagagami will be added in the future and the 2018-19 is based on estimated harvest from all four units. Based on discussions with the receiving mills it is expected that during the period of the projection AV Terrace Bay and White River Forest Products will complete their upgrades and Buchanan group will bring on line its sawmill in Longlac.

The NFMC volume in 2017-18 (and related revenues) is expected to increase by over 400,000 m3 due to the inclusion of the White River with an increase again in 2018-19 with the addition of the Nagagami SFL's as shown in Table 7.

In addition to administration fees and stumpage revenues, NFMC receives funding from the provincial roads program, forest renewal trust and sometimes from Forestry Futures Trust. These revenues are related to specific activities and are re-imbursements for costs incurred by NFMC. In the case of the forest renewal trust fund and roads program almost the entire amounts are sent directly to the contractors and are not retained by NFMC. In 2015-16, NFMC generated \$3,178,000 in total revenue (including \$2.6 million for roads and renewal) similar contributions from FRTF and the roads program are expected in 2016-17. These revenues are considered flow through funds and are not included in projections for the business plan and operating reserve (related expenses are also not included in the business plan financials).

Currently stumpage generated from the NFMC management area is allocated to a sub-account of the trust fund administered by Forestry Futures Committee. A funding agreement for 2016-17 is required to access FFT funding until the agency assumes the SFL's, planned for 2017-18. After this time, NFMC will be responsible for setting its own price and collecting the revenue from its wood sales. The agency will not require any additional funding support to carry out its mandate once the SFL are obtained.

The forecast silviculture program for the Big Pic and Pic River is estimated at approximately \$2.5 million per year to meet the forest management plan objectives. The funding will allow NFMC to address the silviculture obligation. Once the historic obligation is addressed NFMC will review the silviculture program and renewal rates to determine future strategies. Based on forecast treatment requirements and harvest levels the breakeven renewal rate is approximately \$3.50/m3 for softwood.

The Big Pic Forest is currently above minimum balance and it is expected the amount above minimum balance will continue growing in 2016-17. The Pic River Forest is currently below minimum balance, largely due to the lack of harvest activity over the last few years. NFMFC is accepting the unit from the MNRF with the deficit and will begin addressing the shortfall, including by increasing the harvest levels on the unit resulting in more contributions to the trust fund. The MNRF has obligated NFMFC to amalgamate the two units, it is expected that the amalgamation will occur in 2019. The deficit on the Pic River will be eliminated through amalgamation since the forecast amount above minimum balance on the Big Pic is higher than the forecast deficit on the Pic River.

Information available to NFMFC suggests that the White River renewal trust fund is currently in a small amount above minimum balance position.

NFMFC will finance the required activities through a combination of activities funded by the Forest Renewal Trust, application to the Forestry Futures Trust Fund, the roads program and funds received by NFMFC as part of its normal operations.

Expenditures, Projected Revenues, Funding Requirements

Total expenditures are estimated at approximately \$1.7 million in 2016-17 for the Big Pic and Pic River management units, reaching \$2 million in 2017-18 once the White River SFL is transferred to NFMFC. The expenditures reach \$2.5 million in 2018-19 when the Nagagami is added. 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 NFMFC assumes the SFL's.

The administration fees are calculated on a breakeven basis. Administration fees are designed to cover operating costs related to delivering fibre to NFMFC's customers. As volumes increase the administration fee is expected to decrease on a dollar per m³ basis. The admin fee may vary based on product (i.e. no admin fee is currently charged on biomass) or mills (i.e. commitment versus non-commitment holders). The fee charged to the forest industry in 2015-16 was \$1.06 per m³. The rate for 2016-17 is expected to be \$0.96 per m³. The objective is to achieve an administration fee of \$0.75 per m³ by 2018-19 when all units are under NFMFC management and operational synergies can be achieved. NFMFC does not charge an admin fee on biomass.

NFMFC receives the residual stumpage value. The total amount of stumpage received by NFMFC in a year is dependent upon the type and volume of forest products delivered. The rates for softwood are different than hardwood and biomass. The stumpage revenues are also impacted by FRI charges deducted. The MNRF charges a fee for the FRI program of \$2.50 per m³ until its funding goals are achieved (usually by October). The higher the provincial harvest level the sooner the FRI program funding target is met. It is assumed that this program will continue and that for a portion of the year NFMFC will be subject to the FRI charge. The stumpage revenue is also determined by the rate charged per m³. The stumpage rate includes a mechanism that adjusts the rate based

on market conditions, it is assumed that the rate stays at the minimum level from 2015-2019.

NFMC has agreed with the forest industry that the stumpage revenue it earns will stay consistent with the stumpage matrix for the foreseeable future. NFMC and the industry may negotiate when a new MOA is signed.

NFMC expects to generate stumpage revenue of \$1,666,000 in 2016-17 which will be held by the FFT. Revenues from stumpage are not expected to begin flowing to the Agency until the SFLs are issued for the Big Pic and Pic River forests. Stumpage revenue from the White River and Nagagami SFL's are separated from the Big Pic and Pic River and will be available to NFMC when it assumes control over those units. Full implementation of the revenue model is expected to begin in 2017-18 and will coincide with the issuance/transition of Big Pic, Pic River and White River SFLs. The balance in the accounts at March 31, 2016 is estimated to exceed \$6 million. When NFMC assumes the Big Pic, Pic River and White River SFL's in 2017-18 it will receive stumpage funds for those forests currently held in trust. The amount received as a capital contribution in 2017-18 is estimated at \$6 million after all accounts have been reconciled and any outstanding obligations cleared. When NFMC assumes the Nagagami SFL in 2018-19 it will receive the balance in the trust fund estimated at over \$2 million.

As part of the total revenue noted above, start-up funding of up to \$1.78 million was identified (through FFT funding) in 2013-14 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 million by 2016-17. 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 completed revised applications to MNRF and the Forestry Futures Committee in 2014 and 2015 to ensure the funding is made available to bridge NFMC operations while it puts in place the necessary mechanisms to implement its intended revenue model. A further application to the Forestry Futures Committee may also be required to access any additional funding that may accrue in the account in 2016-17 until the SFLs are assumed.

Table 8 summarizes the projected revenues, expenses and net income for NFMC as they relate to the harvesting targets outlined in Table 7 above. Further details regarding the forecasts can be found Appendix II.

Table 8. Summary of NFMC projected revenues, expenditures and net income

	2015/16 actual†	2016/17	2017/18	2018/19
Revenue	\$1,142,294	\$2,299,040	\$3,541,940	\$4,330,080
Operating Expenditures	\$1,779,506	\$1,978,162	\$2,242,092	\$2,455,143
Excess Revenue Over Expenses*	(\$637,212)	\$320,878	\$1,299,848	\$1,874,937
Non-Operating***				
Strategic (annual)	(\$500,000)	(\$200,000)	(\$450,000)	(\$450,000)
Forest Improvement (annual)				(\$500,000)
Forest Contracting (annual)			(\$700,000)	(\$700,000)
Forest Infrastructure/ Access (annual)			(\$950,000)	(\$350,000)
Unforseen/Contingent (annual)			(\$400,000)	(\$1,000,000)
CRF Funds Segregated Received			\$6,000,000	\$2,000,000
Operating Reserve (cumulative)**	(\$300,000)	(\$2,800,000)‡	(\$4,800,000)	(\$6,000,000)

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

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

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

† 2015/16 results does not include revenues and expenses related to MNRF roads program

‡ 2016/17 Operating reserve includes funds set aside by NFMC per By-Law #3 and funds that are currently held in trust by the Forestry Futures Trust Fund (the estimated balance in the Forestry Futures Trust Account for NFMC at March 31, 2017 for the Big Pic & Pic River is \$2,208,000)

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.

Funds received from the FFT following the issue and/or transfer of the SFL's will be transferred to the operating reserve, per direction received by the NFMC. 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. 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 \$4,800,000 set aside in its operating reserve by the end 2017-18 and \$6,000,000 for the 2018-19 fiscal year. NFMC has targeted maintaining more than 2 years of operating costs that would 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 MNRF and current licence holders (i.e. the corporation may want to consider utilizing a portion of this reserve to deal with outstanding obligations or obligations under its SFLs once they are issued/transferred).

In addition, an annual allocation of funding has been earmarked 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.

Outstanding SFL Obligations

NFMC will assume the responsibility for forest renewal including any past, present and future silviculture obligation associated with the Big Pic and Pic River forests. NFMC has reviewed the information from the MNR and developed an estimate of the silviculture obligation. NFMC will work to ensure that the effected stands meet the minimum standards to be declared FTG. The analysis by NFMC indicated that the primary challenge facing the agency is the backlog in FTG surveys. This analysis was supported by the findings of the recent Big Pic IFA that found significant shortfalls in record keeping during the period before NFMC assumed control of the units. NFMC has started the process to identify high value areas for the next free-to-grow program.

NFMC has access to sufficient funding to ensure successful implementation of the silviculture strategy. NFMC will use a combination of forest renewal funds, Forestry Futures Trust and stumpage revenues to address the silviculture obligation.

It is anticipated that the Big Pic and Pic River units will be amalgamated in 2019 and the new unit will have a single minimum balance requirement. The projections developed by NFMC for the MNR show that NFMC will meet the minimum balance requirements in all years. The projections do not include any funding from sources such as Forestry Futures Trust. Should NFMC experience that shortfall it may use its internal funds to cover the deficit (i.e. stumpage revenue or operating reserves).

Pic River forests are primarily dominated by conifer although there is a large component of mixed wood stands. The silviculture strategy has been aimed at increasing the productivity of the forest. An analysis by NFMC indicates that this strategy has largely been maintained even through the recent economic downturn. NFMC plans to continue this strategy with the planting stock already in place for the upcoming season. As part of the silviculture review NFMC will develop options to treat/retreat stands that do not meet the planned renewal objectives.

The forecast silviculture program for the two forests is estimated at approximately \$2.5 million per year to meet the forest management plan objectives. At the current rate the unit will generate approximately \$3 million per year in contributions to the forest renewal trust. The excess funding will allow NFMC to address the silviculture obligation. Once the historic obligation is addressed NFMC will review the silviculture program and renewal rates to determine future strategies. Based on forecast treatment requirements and harvest levels the breakeven renewal rate is approximately \$3.50/m³ for softwood.

NFMC may set the rate above breakeven in order to fund activities required to address the silvicultural obligation.

Currently, the Big Pic account balance is above minimum balance while the Pic River is below minimum balance. The Pic River trust account balance has been impacted by low levels of harvest on the unit, NFMC is working with AV Terrace Bay and Pic River FN Development Corp to increase harvest opportunities on the unit. It is expected that starting in 2015-16 new operations will commence on the Pic River as Pic River First Nation has purchased equipment that will be delivered during the year. NFMC and MNRF have had discussions regarding addressing the silviculture obligation that will include a strategy to bring the account to minimum balance over an agreed upon period. It is expected as harvest rates increase the funds' balance will increase so that minimum balance is achieved. In addition, NFMC may draw upon its operating reserves to address periodic shortfalls.

NFMC has worked with White River Forest Products (WRFP) and reviewed the silviculture program. WRFP will continue to use the services of Jack Fish River Management (JFR) to implement the Renewal and Maintenance/Silviculture program. JFR has professional and experienced individuals in planning and renewal, as well as years of experience in implementing the White River Forest program. WRFP also gains on the synergies JFR creates by managing the adjacent Nagagami Forest.

JFR will continue to be the individuals on the ground, supervising the various activities required to implement the programs. WRFP will be the entity that signs all the contracts. WRFP will be accountable for the payment to the contractors and management of the Forest Renewal Trust Fund.

WRFP plans on continuing with the Trust Fund renewal rate strategy that was submitted by WRFP to MNRF. This plan was submitted initially in 2013 to the District office of MNRF and updated again in 2014 and 2015. The Regional office of MNRF has then set the rates that WRFP has requested. The plan forecasted the rates to the 2019- 2020 fiscal year. The plan was developed to first ensure an adequate renewal program was planned for and funded and secondly to provide a more predictable, less fluctuating renewal rate. The plan forecasts maintaining the trust fund balance at over two million dollars. The required minimum balance is \$1,694,800.

NFMC currently does not have enough information to estimate the silviculture obligation on the Nagagami and will work with the existing SFL holder to assess silviculture work required as part of the transition of the SFLs.

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 9 below. In 2014/15 the company spent \$138,000 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. In 2015-16 the company spent \$4,049 for office and computer equipment, software, etc. For 2016-17, NFMFC is estimating that it will require updates to computers and other office equipment of approximately \$40,000. For the balance of the current planning horizon, NFMFC is budgeting ~ \$300,000 annually for capital associated with the Corporations needs for computer, office equipment to establish satellite offices (i.e. White River and Hornepayne) and vehicles/other equipment to meet its expanding operational needs.

Table 9. NFMFC Capital Expenditures

Capital Item	\$(000s)			
	2015/16	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast
Roads & Bridges			\$150,000	\$150,000
Office Equipment		\$20,000	\$50,000	\$50,000
Leasehold Improvements				
Computer Equipment	\$4,049	\$20,000	\$50,000	\$50,000
Vehicles/Equipment			\$50,000	\$50,000
Total	\$4,049	\$40,000	\$300,000	\$300,000

In the future, all capital expenditures would be fully funded from NFMFC revenues. As NFMFC assumes a more active role in managing the forests in 2017-18 additional capital equipment will be required to support infrastructure (i.e. bridges), operations (i.e. ATV/UTV, snow machines, etc.), and information management (i.e. software, hardware, peripherals).

Staffing

The General Manager (GM), hired by and reporting to the Board, is responsible for the day-to-day management of the NFMFC. 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:

NFMFC has six professional staff hired on a permanent basis, and one staff member on contract (Operations Manager) and one function contracted to a local harvesting operation (Forestry Coordinator). The permanent positions include:

- General Manager
- Finance Manager

- Administrative Assistant/Office Coordinator
- Forestry Planner
- GIS Specialist
- Silviculture Forester

In 2016-17 it is expected that NFMC will hire a Forestry Coordinator based out of Marathon or Manitouwadge. This work is currently being completed by a service provider.

NFMC will acquire the White River SFL which will require a review of the NFMC's human resources and the forest management strategy employed by White River Forest Products to develop a plan to integrate White River into the NFMC. 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 is considering moving forward with implementation of an appropriate wood tracking and inventory system.

NFMC is outsourcing much of its forest management and geographic information system (GIS) IT needs from established service providers. Going forward, NFMC will be bringing most GIS services in house and has hired a GIS specialist at the end of 2014. In 2016-17, 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 \$20,000 annually have been identified in 2016-17 and beyond to support public relations, advertising for wood sales, and other initiatives consistent with its mandate. 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 a Forest Stewardship Council (FSC) or a Sustainable Forest Initiative (SFI) certification system. NFMC is currently FSC certified on the Big Pic (certified in 2014-15) and the certification process on the Pic River forest will be started in 2016-17. NFMC will review the certification plan for the White River and Nagagami Forests, the White River is currently certified. An allocation of approximately \$125,000 per year has been identified to support certification efforts on the Pic River starting in 2016-17, as well as \$30,000/forest per year allocation for forest certification maintenance activities on the Big Pic. If the NFMC choose to have the forest certified, the certification costs for the Nagagami will likely begin in 2020-21.

Strategic Investments

The NFMC has a mandate that goes beyond forest management activities and includes initiatives aimed at supporting the forest industry and communities. NFMC has a corporate social responsibility to strategically invest revenues in initiatives that are well thought out, financially responsible, play a key role and make a positive impact in growing the forestry sector surrounding the NFMC land base.

NFMC has developed a policy to help inform its investments in what it calls strategic investments. The Strategic Investment Policy allows corporations in the NFMC management area to respond to their economic opportunities and challenges according to their individual priorities, and to pursue regional collaboration to advance common goals in order to strengthen the forest sectors competitive advantages.

The Board of the NFMC will give consideration to Strategic Initiatives on a case by case basis. All requests will be brought forward to the Board for consideration through the General Manager. NFMC may make funds available through the use of grants, conditional grants, service contracts, performance incentives or other measures

identified by the board. All requests made to the NFMC must include an official letter from the proponent describing the project/initiative and commitment requested from the NFMC including a full costs breakdown of the project/initiative. The information required for Board Approval will be gathered by the General Manager through correspondence with the proponent.

From time to time NFMC management may identify initiatives that are necessary to advance corporate objectives. NFMC has committed to ensuring that it has sufficient funds in its operating reserves before engaging in any new initiatives. The NFMC will ensure that two years operating costs are in its reserve funds (once By-Law is finally approved) or held by the Forestry Futures Trust on behalf of the NFMC. For March 31, 2017 the NFMC has identified a target of \$2.8 million. Only after the reserve has been established will NFMC consider new initiatives. In these circumstances, with board approval, the company will follow its strategic initiatives policy and procurement policy.

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. NFMC intends to develop necessary strategies and explore opportunities to move forward with local and Aboriginal economic development opportunities as they arise.

The NFMC has entered into an agreement with B&M Hauling Ltd. (the primary limit operator) to harvest and deliver wood on behalf of the NFMC. At the request of AVTB, Columbia and White River Forest Products, B&M Hauling Ltd. is developing plans to expand capacity from 440,000 m³/year to 650,000 m³/year with the support of NFMC. B&M Hauling Ltd. has agreements with the receiving mills for weekly or bi-weekly payment of invoices. NFMC has agreed to provide an advance to B&M for roadside inventory, B&M will use the funds in conjunction with the Northern Ontario Heritage Fund ("NOHFC") to support its expansion. NFMC has a mandate to support the regional forest industry and be a partner in sustainable local economic development. B&M is a large contracting company headquartered in Manitowadge, Ontario and operating in the White River, Big Pic and Pic River forests. B&M is primarily engaged in logging and transportation of logs, chips and hog fuel to mills in the Northern Ontario region.

In addition, the NFMC has completed an agreement with MKWA that resulted in a harvesting contract that will see full time employment created for Pic River First Nation. The NFMC agreement allowed Pic River First Nation to make a significant capital investment to purchase harvesting equipment. AVTB has negotiated with Pic River First Nation to supply an additional 100,000 m³ from the Pic River Ojibway Forest, these deliveries started in 2015-2016.

In addition, the NFMCC has been approached to support Pic Moberg's forestry operations in 2016-17 and 2017-18. The funds will be used to support planned purchases of forestry equipment to support harvest and deliveries from the White River Forest.

Other initiatives include activities that improve the road infrastructure and access on the different SFL's. By improving road access NFMCC expects to increase volumes delivered from the management area and revenue received.

Negotiation of SFL Obligations with MNRF (Big Pic and Pic River forests) and Current SFL holders (Nagagami and White River forests)

Currently, there are outstanding obligations on each of the forests in the NFMCC management area related to silviculture, roads, gravel pits, etc. NFMCC has made an agreement with the MNRF to address the obligation on the Big Pic and Pic River Forests. The proposal by NFMCC would see the majority of the funding come from the company's contributions to the Forest Renewal Trust Fund with other sources including Forestry Futures Trust Fund and NFMCC's operating revenues. One of the NFMCC's management's first priorities was to improve its renewal program. The management of the NFMCC has reviewed the silviculture practices (including when the area was under MNRF management) and identified a number of shortcomings (also identified in the 2014 Big Pic Independent Forest Audit). In response, the NFMCC has developed new strategies to ensure that the renewal program will meet objectives set out in the approved forest management plans.

NFMCC and MNRF have set April 1, 2017 as the target date for the issuance of the Big Pic and Pic River licenses to the NFMCC. However, the issuance date may be delayed to address issues that arise during the public and aboriginal consultation periods. Once the SFLs are issued/transitioned to NFMCC, 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 NFMCC's forecasted budget of operating expenditures for the planning period.

NFMCC has also entered into discussions regarding White River Forest and has an agreement in principle regarding the transfer of the SFL to NFMCC. The two companies hope to have the license transferred at the beginning of 2017-18. Limited discussions have been had with the Nagagami Forest and no decision has been made regarding outstanding obligations.

13.0 Implementation Plan

In confirming the strategic direction the Corporation will focus on eight initiatives to be completed by March 31, 2019 are:

- Acquire SFLs;
- Complete FSC Certification;
- Launch Silviculture Program;
- Initiate the Big Pic and Pic River amalgamated FMP;
- Finalize MOAs;
- Prepare for and Respond to the IFA;
- Establish Governance Policy and Process; and
- Play a key role in First Nations operations on our Land Base.

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

NFMFC is continuing to work toward the issuance of the SFLs for the Big Pic and Pic River forest with the MNRF. In this regard, an SFL Business plan was submitted to MNRF in July of 2013 and NFMFC expected SFLs to be issued by the spring of 2014. This target date was not achieved, and an updated SFL Business plan was submitted to MNRF November 2014 and discussions are underway related to the outstanding obligations on the two forests with a new target date April 1, 2017.

Discussions on both the White River and Nagagami SFLs started in 2014 and have been ongoing since. NFMFC management has met with representatives from White River and Nagagami on several occasions in various locations (White River, Hornepayne, Toronto, etc.). Along with securing the Big Pic and Pic River SFLs, NFMFC will complete negotiating the transfer of the White River SFL with White River Forest Products and it is anticipated to be completed at the start of 2017-18, at which time NFMFC will become responsible for undertaking the forest management activities on the forest.

The status of the Nagagami is less certain as the negotiations have been slower than other forests. The management at Olav Haavaldsruds Timber Co have had other issues to deal with in 2014 and 2015. The transfer is further complicated by external events that have resulted in the indefinite closure of the company's Hornepayne sawmill and subsequent purchase by Hornepayne Lumber. Hornepayne Lumber is currently reviewing the mills operations and developing a plan to restart in 2017. NFMFC will allow these events to play out before a decision can be made on the transfer of the Nagagami SFL to NFMFC. It is hoped that the transfer can take place before the beginning of 2018-19 fiscal year.

NFMFC will be moving forward with the development and implementation of the 2016-17 Annual Work Schedule which includes:

- Planning – AWS, staff meet with operators, negotiate price with mills, meet with silviculture contractors;
- Implementation – harvest activities, compliance, monitoring activities, silviculture;
- New initiatives and how they fit in – e.g. with First Nations, training youth programs, etc.

14.0 Communication Plan

The NFMC model was initiated and developed in collaboration with local and Aboriginal communities. Early in the process and in response to unsolicited local interest, MNRF established a local Working Group to share information and to make recommendations to government for the development and establishment of the proposed LFMC. Since the early stages of the Forest Tenure and Pricing Reform project in 2009, First Nation organizations and communities across Ontario have been engaged in related discussions and invited to contribute to the development of new models of forest tenure. Specific to the NFMC, each First Nation community within the proposed management area has had representatives participating as part of the NFMC Working Group. As part of the Working Group, these representatives have had the opportunity to directly participate and collaborate with MNRF, local communities and SFL holders on the proposed elements of the NFMC including the business assumptions, transition considerations and the governance structure.

MNRF posted a notice regarding the regulation to establish the NFMC on the Ministry of Economic Development and Innovation's (MEDI) Regulatory Registry and an information posting on the Environmental Bill of Rights Registry to ensure all interested parties were aware of the proposed regulation and could provide comment to the Ministry. The notice was posted for 45 days (December 8, 2011 to January 23, 2012). No substantive comments were received.

NFMC is targeting to maintain a medium profile for communications activities over the planning period, with a specific emphasis on relationship building during the 2016-17 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 10 below.

Table 10. 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, MNRF and staff - Website update with photo	Completed January 2014
First year anniversary, combined with office grand opening	- Invitation to Minister to attend open-house celebration - Invitation to stakeholders and staff - MNRF news release (Minister's announcement) or NFMC Board photos/visuals	Completed December 2014
2014/15 Annual Report	- News release highlighting milestones - Website	Completed May 2015
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, MNRF and stakeholders - Add to website and all relevant material e.g. letterhead, templates, business cards, signs, etc.	Ongoing
Stakeholder engagement	- Stakeholder Advisory Committee (on-hold) - Local/regional participation through speaking opportunities (e.g. Chambers of Commerce, town/FN council meetings, Community events, etc.) - Observers at Board meetings	On Hold Ongoing
MNR	- Regular updates with key staff - Regular meetings with MPPs and Minister	Ongoing
Internal communications	- Regular staff meetings/emails - Staff recognition	Ongoing

The NFMC is developing strategies to increase its effectiveness in communicating with stakeholders, communities, and the public. The NFMC is investigating hiring a Public Relations position. The position will likely commence at some point during 2016-17 or 2017-18. Initially, it is planned that the position will start as a 6 month contract, and be reviewed to see if there is a long term need. The positions responsibilities will include trade shows, university and colleges outreach, work with Ontario Nature and local high schools for public education as well as enhancing NFMC's website and social media presence.

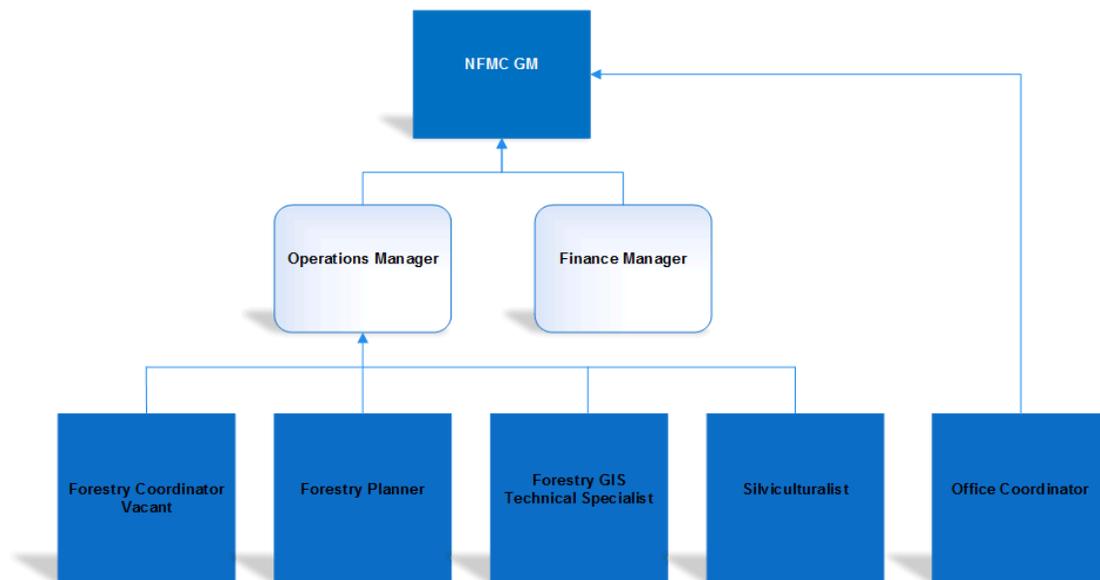
15.0 Organizational Chart

Beginning in October of 2013, NFMC staff began to assume the roles and responsibilities of the MNR support staff. In February 2014, after a lengthy and thorough recruitment process, the NFMC hired Carmelo Notarbartolo as its first permanent General Manager.

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 developing and implementation 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.

The NFMC is still growing and is in the process of determining its employment needs to support the hiring of additional operations and administrative employees in the 2016-17 fiscal. The current NFMC structure is reflected in Figure 2. It is expected additional employees and perhaps office locations may be required when NFMC assumes responsibility for all four SFL's. In addition, specific tasks (i.e. forest management plan preparation) may require additional staff on a permanent or temporary basis.

Figure 2: Organizational Chart (at April 2016)



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.

Harvesting and delivery of wood to the mills is done by independent contractors. In prior years the mills signed contracts with the contractors and paid them directly for wood deliveries, however, starting in 2015-16 NFMC will utilize a service provider to

deliver wood on behalf of NFMC. The mills will pay NFMC and NFMC will pay the contractor for wood deliveries. At the current moment, NFMC does not have plans to hire production employees for harvesting activities.

APPENDIX I - NFMC FORECAST FINANCIAL SUMMARY

Projected Statement of Earnings
Fiscal Years 2015/16 to 2018/19

	2015-16	2016-17	2017-18	2018-19
Operating Revenue	ACTUAL	FORECAST	FORECAST	FORECAST
Administration Fees	526,640	503,040	1,141,500	1,278,750
Stumpage Charge			4,568,360	5,257,810
LFMC Conversion Program		1,196,000		
Other Revenues	600,697	600,000		
Total Revenue	1,142,294	2,299,040	5,709,860	6,536,560
Operating Expenses				
Automobile	25,992	74,436	91,350	100,485
Amortization	40,909	8,648	114,400	151,520
Bank & Finance Expenses	158,113	1,500	1,575	1,733
Board of Directors	39,630	28,860	45,360	49,896
Contractor Costs	217,322	395,412	346,500	381,150
Forest Certification	40,056	155,000	162,750	179,025
Forest Management	89,676	61,800	388,500	427,350
Capacity Development	159,905	79,400	74,550	82,005
Insurance	29,986	18,000	18,900	20,790
License	32,613	40,296	12,600	13,860
Miscellaneous	5,936	12,000	12,600	13,860
Office	74,038	37,700	57,225	62,948
Office Lease	31,152	31,200	35,700	39,270
Professional Fees	35,708	49,000	52,500	57,750
Public Relations & Travel	5,034	35,926	38,325	42,158
Road Maintenance	215,274	300,000	52,500	57,750
Wages & Benefits	578,162	648,984	736,757	773,595
Total Expenses	1,779,506	1,978,162	2,242,092	2,455,143
Operating Net Income	(637,212)	320,878	3,467,768	4,081,417

Note: Expenses and revenues for 2015/16 & 2016/17 are for the Big Pic and Pic River; 2017/18 includes Big Pic, Pic River and White River; 2018/19 includes all SFL's

Forestry, Non-Operating (Strategic Initiatives) & Reserve

	2015-16	2016-17	2017-18	2018-19
FORESTRY REVENUE	Actual	FORECAST	FORECAST	FORECAST
Forest Renewal Activities	\$16,339	\$106,057	\$367,147	\$583,220
Forest Access Roads	\$2,019,550	\$2,035,000	\$2,035,000	\$2,035,000
Total Forestry Revenue	\$2,035,889	\$2,141,057	\$2,402,147	\$2,618,220
FORESTRY EXPENSES				
Forest Renewal Activities	\$0	\$106,057	\$367,147	\$583,220
Forest Access Roads	\$2,031,050	\$2,035,000	\$2,035,000	\$2,035,000
Total Forestry Expenses	\$2,031,050	\$2,141,057	\$2,402,147	\$2,618,220
Forestry Net Income	\$4,839	\$0	\$0	\$0
NON-OPERATING EXPENDITURES*	2015-16	2016-17	2017-18	2018-19
Strategic (annual)	\$500,000	\$200,000	\$450,000	\$450,000
Forest Improvement (annual)				\$500,000
Forest Contracting (annual)			\$700,000	\$700,000
Forest Infrastructure/ Access (annual)			\$950,000	\$350,000
Unforeseen/Contingent (annual)			\$400,000	\$1,000,000
Proposed Strategic Initiatives (annual)	\$500,000	\$200,000	\$2,500,000	\$3,000,000

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

RESERVE

Proposed Operating Reserve (cumulative)	\$300,000	\$2,800,000†	\$4,800,000	\$4,800,000
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Note: 2015/16 & 2016/17 are for the Big Pic and Pic River; 2017/18 includes Big Pic, Pic River and White River; 2018/19 includes all SFL's

† Proposed Operating Reserve consists of funds invested per By-law#3 (March 31, 2017 = \$600,000) and funds held by the FFT in trust for NMFC that will be transferred to NFMC operating upon issuance of the SFL. The estimated balance in the Forestry Futures Trust Account for NFMC at March 31, 2017 for the Big Pic & Pic River is \$2,208,000.

Nawiingnokiima Forest Management Corporation

Projected Statement of Financial Position

Fiscal Years 2015/16 to 2018/19

	2015-16	2016-17	2017-18	2018-19
Current Assets				
Cash	\$1,487,511	\$663,136	\$2,670,822	\$4,301,482
Accounts Receivable	\$2,143,705	\$333,173	\$951,643	\$1,089,427
Inventory	\$900,000	\$0	\$0	\$0
Prepaid Expenses	\$4,100			
Investment Funds	\$0	\$600,000	\$4,800,000	\$6,000,000
	<u>\$4,535,316</u>	<u>\$1,596,309</u>	<u>\$8,422,465</u>	<u>\$11,390,909</u>
Capital Assets	\$163,595	\$203,595	\$503,595	\$803,595
Less Depreciation	<u>(79,108)</u>	<u>(87,756)</u>	<u>(202,156)</u>	<u>(353,676)</u>
	84,487	115,839	301,439	449,919
	<u>\$4,619,803</u>	<u>\$1,712,148</u>	<u>\$8,723,904</u>	<u>\$11,840,828</u>
Obligations & Liabilities				
Current obligations:				
Accounts payable & accrued obligations	\$2,454,126	\$329,694	\$373,682	\$409,191
Net assets (including operating reserve*):	\$2,165,677	\$1,382,454	\$8,350,222	\$11,431,637
Net Assets Summary				
Unrestricted	\$1,865,677	\$782,454	\$3,550,222	\$5,431,637
Restricted*	<u>\$300,000</u>	<u>\$600,000</u>	<u>\$4,800,000</u>	<u>\$6,000,000</u>
Total Net Assets	<u>\$2,165,677</u>	<u>\$1,382,454</u>	<u>\$8,350,222</u>	<u>\$11,431,637</u>

* Additional funds are held in trust by FFT for NFMC and will contribute to NFMC meeting its proposed operating targets.

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 in future terms.

Accounts receivables are net of allowance for doubtful accounts

Nawiingnokiima Forest Management Corporation

Projected Statement of Cash Flows

Forecasts for Fiscal Years 2015/16 to 2018/19

	2015-16	2016-17	2017-18	2018-19
Cash flows from operating activities				
Excess revenue over expense	(\$632,373)	\$20,878	\$3,467,768	\$4,081,415
Amortization of assets	\$40,909	\$8,648	\$114,400	\$151,520
	(\$591,464)	\$29,526	\$3,582,168	\$4,232,935
Change in non-cash working capital				
Accounts receivable	\$1,676,703	\$1,810,532	(\$618,470)	(\$137,783)
Inventory				
Prepaid expenses	(\$4,100)			
Accounts payable	(\$418,196)	(\$2,124,432)	\$43,988	\$35,509
	\$1,254,407	(\$313,901)	(\$574,482)	(\$102,275)
Cash flows from financing activities				
Capital contribution received	\$0	\$0	\$6,000,000	\$2,000,000
	\$0	\$0	\$6,000,000	\$2,000,000
Cash flows from investing activities				
Acquisition of capital assets	(\$4,049)	(\$40,000)	(\$300,000)	(\$300,000)
Sale of capital assets	\$0	\$0	\$0	\$0
Operating reserve	\$0	(\$300,000)	(\$4,200,000)	(\$1,200,000)
	(\$4,049)	(\$340,000)	(\$4,500,000)	(\$1,500,000)
Cash flow from other activities				
Strategic initiatives	(\$500,000)	(\$200,000)	(\$2,500,000)	(\$3,000,000)
Strategic repayments	\$0	\$0	\$0	\$0
	(\$500,000)	(\$200,000)	(\$2,500,000)	(\$3,000,000)
Increase (decrease) in cash	\$158,894	(\$824,374)	\$2,007,686	\$1,630,661
Cash, beginning of year	\$1,328,616	\$1,487,510	\$663,136	\$2,670,822
Cash, end of year	\$1,487,510	\$663,136	\$2,670,822	\$4,301,482

APPENDIX II - 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.
- Volume forecasts provided by representatives from primary forest product mills based on planned operations and capital investments for 2015/16 and beyond.
- Assumes that PRDC’s planned harvest operations are in place during 2016/17.
- 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. Olav Haavalsrud Timber Company Limited/Hornepayne Lumber is not included as a core customer in 2016/17 and 2017/18.
- Volume for 2015/16 and 2016/17 from Pic River & Big Pic only, volume for 2017/18 from Pic River, Big Pic River, and White River, volume for 2018/19 from all SFL’s (Pic River, Big Pic River, White River, Nagagami).

Sales Revenue:

- Revenue factors based on the current rates being remitted to the Consolidated Revenue Fund (under CFSA S. 31).
- Administration fee for 2015/16 based on \$1.06 per m3, admin fee is designed to breakeven against certain operating expenses and will vary on a \$/m3 basis yearly (based on volume and operating expenses). Admin fee expected to drop in 2016/17 to \$1.00 per m3, and \$0.75 per m3 in 2017/18 and 2018/19 as delivered volume increases.
- Revenue projections are based on a close approximation of the current cost of wood to industry.
- Revenue for 2015/16 from Pic River & Big Pic only, revenue for 2016/17 and 2017/18 from Pic River, Big Pic River, and White River), revenue for 2018/19 from all SFL’s (Pic River, Big Pic River, White River, Nagagami).
- For open market sales it is assumed that stumpage prices in the short term will match the MNRF’s stumpage matrix.

Silviculture Charges:

- Invoices from contractors sent to Forest Renewal Trust for direct contractor reimbursement.
- Assumes a 10% recovery of total costs from the Forest Renewal Trust associated with NFMC delivery and management of the silviculture program (applied in Admin Fee calculation).
- Assumes the majority of renewal activity covered by direct contractor reimbursement from Forest Renewal Trust Fund, such activities are not recorded as revenue or expenses.

Forest Resource Inventory:

- Reduction in CRF fees received by NFMC, 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 program continues beyond 2016/17 at the current rate and NFMC receives reimbursements from provincial road program for costs incurred.
- Assumes a direct flow through to harvesters and mills for road construction and maintenance costs incurred to harvest and haul wood.
- NFMC incurs minor costs related to road maintenance (i.e. beaver removal).

Start-Up Financing:

- Assumes the LFMC Conversion Fund balance in the Forestry Futures Trust for the Pic River, Big Pic and White River to be transferred to NFMC at the end of 2015/16 when the licenses are ready for transfer and issuance.
- Assumes LFMC Conversion Fund balance in the Forestry Futures Trust for the Nagagami Forest to be transferred to NFMC in 2018/19 when the license is ready for transfer.
- The balance in the LFMC conversion fund will be put in the NFMC Operating Reserve when the SFL's are issued/transferred.

Forest Certification:

- Forest certification efforts completed on the Big Pic Forest and annual maintenance charges required, it is planned to commence on the Pic River in 2016/17.

Staffing:

- NFMC hired support staff to support operations additional staff/contract service providers may be hired as required. Additional staff may be required to coincide with transition of the SFLs to NFMC.

Operating Reserve:

- Assumes NFMC By-Law #3 establishing operating reserve is approved in time for implementation in 2016/17.
- Funds held by the Forestry Futures Trust are on behalf of the NFMC are considered in the achievement of the operating reserve targets.
- Projections of Net Operating Income do not include contributions to an operating reserve.
- The estimated cumulative operating reserve will be established from available funds not immediately required for operations.

Strategic Initiatives:

- Expenditures on strategic initiatives identified in Sections #10 and #12 are not included in the current income statement projections and would need to be funded out of excess revenues identified above.
- The Strategic Initiative policy will be in place for the 2016/17 fiscal year.

APPENDIX III - NFMC “Operating Reserve Calculation”

Expenses	Budget*
Automobile	74,436
Bank Charges	1,500
Board of Directors	28,860
Contractor Costs	395,412
Forest Certification	155,000
Forest Management	61,800
Capacity Development	79,400
Insurance	18,000
License & Fees	40,296
Miscellaneous	12,000
Office	37,700
Office Lease	31,200
Professional Fees	49,000
Public Relations & Travel	35,926
Wages & Benefits	648,984
Total Expenses	1,669,514
Silviculture Recovery-Adjustment	-259,218
Operating Costs	1,410,296

- Does not include costs associated with Industrial Road maintenance and non-cash items (ie Amortization).
- Operating Reserve based on multiple of Operating Costs target set by the board (minimum 2x)