

Nawiinginokiima Forest Management Corporation

AGENCY BUSINESS PLAN

for the period

2017/18, 2018/19 and 2019/20

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Confidential

AGENCY Business Plan

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1.0 Executive Summary

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

The Agency business plan prepared 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 (CDSA), 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 and 2018-19 are based on the results for the three SFL's. The results for 2019-20 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 other revenue source, the former Section 31 (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 for the flow of stumpage for Nagagami is expected to happen in 2019-20.

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.

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* (CFS) 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, the mandate letter received in October 2016 from the Minister 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 CFS, 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 and developing appropriate management and governance systems.

- 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 and Forestry on matters related to the forest industry and forest sector.
- Collect, maintain and provide Crown timber sales and pricing information.
- Obtain SFL for the forest management units in the NFMC management area (Big Pic, Pic River, White River and Nagagami).

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

The NFMC received a mandate letter from the Minister that identified the areas for the NFMC to focus on in 2017-18:

- sustainably managing the Big Pic and Pic River Forests;
- working with partners to transition the White River and Nagagami Forests to NFMC
 - to enable the transfer of the White River Forest Sustainable Forest Licence to the Corporation for 2017/18; and,
 - to support the transition of future forest management responsibilities for the Nagagami Forest, as applicable;
- marketing and selling wood through both negotiated and open market sales to generate sufficient revenue from operations to cover business activities and establish an operating reserve;
- establishing and actively engaging the committees outlined in Bylaw #1 (e.g., Advisory, Governance, Finance, etc.); and,
- implementing strategic initiatives that focus on local and First Nations economic development.

The NFMC's plans to address the expectations are laid out in the remainder of the document.

3.0 Strategic Direction

In September 2013, NFMC initiated a strategic planning exercise as a first step in establishing the strategic direction for the Corporation consistent with the objects

described in the OFTMA. At that time, the Board confirmed the preferred short-term 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, NFMC identified five major thematic opportunities that could be pursued, falling into the categories of:

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

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

- where NFMC 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 hired a consultant to assist with its strategic plan and will continue to move forward with the development of new directions. The NFMC developed a document entitled Working Together which details the Strategic Plan for 2017-2021. The implementation of the above noted strategies and strategic initiatives will be implemented in this new plan that will go into effect for 2017-2021.

Vision/Mission

By 2019-2020, NFMC will strive to be recognized as a leader in sustainable forest management by implementing its vision to “manage forests in an exemplary manner to provide distinct opportunities to our communities”.

The Working Together document detailed NFMC’s mission as:

- To hold forest resource licences and sustainably manage Crown forests in accordance with the CFSA 1994 and to promote the sustainability of Crown forests.
- To provide for economic development opportunities for indigenous peoples.
- To become a self-sustaining business entity and to optimize the 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.

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.

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.

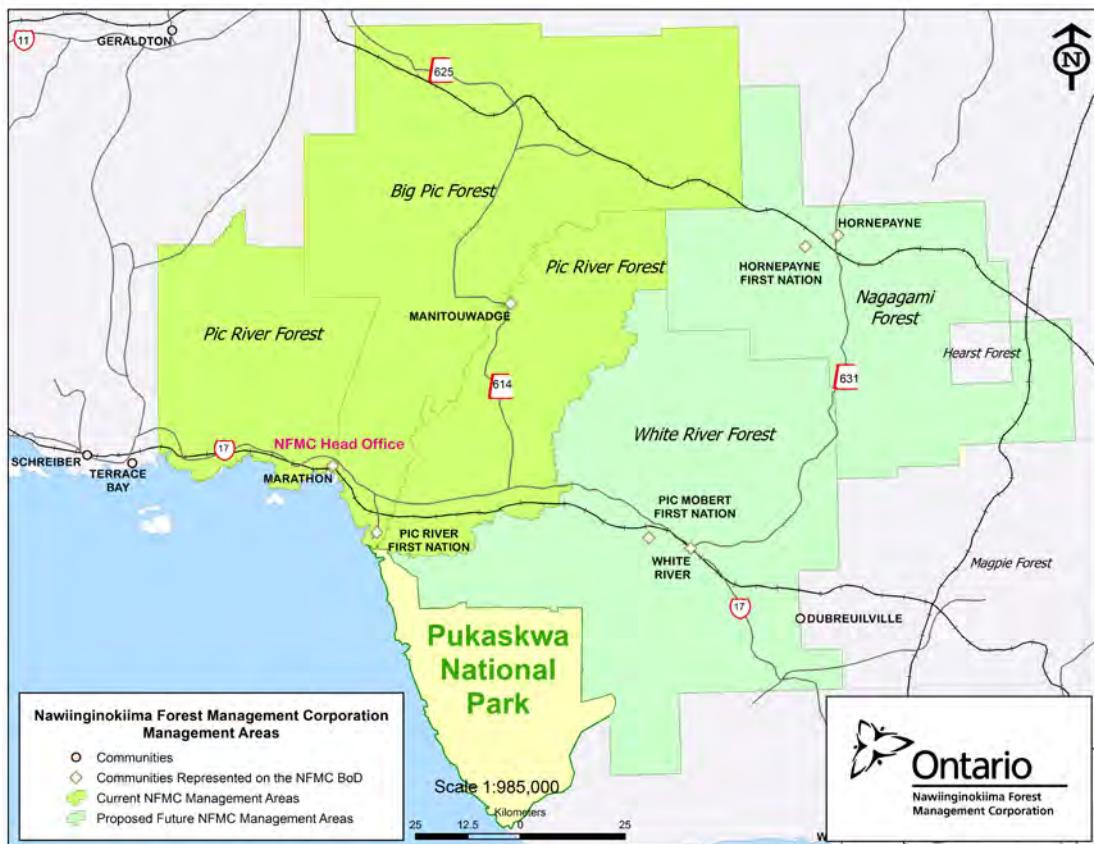
Activities of NFMC are guided by the conditions of the licences it holds, consistent with the requirements of the CFSA and the OFTMA.

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 Mober 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 2017-18 fiscal year. NFMC is also negotiating with White River Forest Products to transfer the White River Forest to NFMC in 2017-18. 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 CFS Act 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 2017-18 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) signed;
- 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 Mober 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.

The White River and Nagagami are currently a single entity SFLs and do not have any softwood commitments as all volume is expected to flow to White River Forest Products and Haavaldsrud (now Hornepayne Lumber). The present version of the White River Forest Appendix E of the SFL identifies two commitment holders which NFMC is required to make wood fibre available to. Those being Weyerhaeuser and Levesque Plywood.

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

White River Forest Products, Haavaldsrud (now Hornepayne Lumber) and Columbia recently made capital investments to improve efficiency and capacity. Haavaldsrud

went into receivership in April 2016. The mill was recently purchased by Hornpayne Lumber Limited Partnership and it was announced that it would restart in the future. NFMC has met with the forest industry to determine projected mill requirements for 2017-18. Given the uncertainty Haavalsrud's requested volumes are not included in the forecast for 2017-18. However, Haavaldsrud still has supply commitments that must be considered, especially before wood is made available to other facilities or the open market.

Table 2. Forecast demand by mill 2017-18 from the Big Pic, Pic River and White River SFL's

MILL	SPF	Po/Bw	Biomass	TOTAL
AV Terrace Bay	286,500		25,000	311,500
Haavaldsrud				
White River FP	360,000			360,000
Lecours	70,000			76,000
Open Market	50,000			50,000
Columbia		42,000		42,000
Atlantic Power			25,000	25,000
TOTAL	766,500	42,000	50,000	858,500

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. The NFMC and White River Forest Products have entered into an MOA that would see the sawmill in White River receive uncommitted poplar up to approximately 50,000 m³ per year. WRFP is studying the use of hardwood and should have more definitive results in 2017/18. Should the test produce the expected results additional volumes could be made available.

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	17/18 Amount Available (estimate)	18/19 Amount Available (estimate)	19/20 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 	\$2,611,770 includes revenue from Big Pic, Pic River, White River	\$3,032,200 includes revenue from Big Pic, Pic River, White River	\$4,189,875 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 	\$3,200,000 NFMC estimates a recovery of ~\$463,050 for eligible costs incurred in the delivery of this program	\$3,800,000 NFMC estimates a recovery of ~\$510,900 for eligible costs incurred in the delivery of this program	\$5,000,000 NFMC estimates a recovery of ~\$706,245 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
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 CFSAs 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 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 future years. 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. Based on NFMC's estimates of volumes delivered, the total in the account is estimated to be over \$6 million at March 31, 2016. 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 may 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. The NFMC will work with the MNRF and FFT to reconcile the accounts when the SFL's are issued.

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 CDSA. 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 initial target for the March 31, 2017 is a minimum reserve of \$2.8 million and a maximum of \$7.0 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.

In December 2016, the board passed a resolution targeting two years of operating expenses for the operating reserve for March 31, 2017 and 2018. The target for the March 31, 2017 reserve set by the board is \$2.8 million. The initial draft of the budget would suggest a target of \$3.2 million for March 31, 2018. The operating reserve targets will be reviewed during 2017-18 to set targets for March 31, 2019 and beyond, specifically following the issue/transfer of the SFL's.

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-imbursement 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 4 below provides a summary of the key risk elements. The risk assessment strategy and risk levels associated with this assessment are found in Appendix IV.

Table 4. Risk elements

Risk Category	Risk Element
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
	IFA audit recommendations - Risk that NFMC is unable to address the concerns identified in the IFA and the license is not extended
	Ability to achieve objects - Risk that strategic plan not completed and business plan does not reflect objectives
	Financial stability - Risk that NFMC is unable to market and sell sufficient volumes necessary to generate revenue for the agency
	Ability to meet stakeholder expectations - Risk that this plan and vision will not be achievable or will be inconsistent with original intent
	Public Image - Risk that NFMC does not garner public support or is viewed negatively by the stakeholders it is intended to benefit
Accountability/ Governance	Ensuring responsible & compliant operations - Risk that NFMC operations are not compliant with applicable rules & regulations
	Internal governance and accountability mechanisms - Risk that internal policies and structure is insufficient to protect interests of the NFMC and the Ministry
	Obligation of Directors - Risk that board members decisions create a liability for NFMC
	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.
	Government reporting requirements - Risk that NFMC fails to fulfill government reporting requirements
	Financial reporting - Risk that internal policies and structure is insufficient to protect interests of the NFMC and MNRF
Operational	Market - Risk that the demand for wood will impact on cash flow
	Regulatory- Risk that environmental guides and policies reduce wood supply.
	Contractor risk – major contractor unable to supply mills
Financial	Stumpage risk – customers unable to pay stumpage arrears
	Unforeseen Event risk - risk of 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 (eg. bridge issue)
Workforce	Attracting talent - Risk that NFMC is unable to attract qualified personnel to fill vacancies.

	Employee relations - Risk that employee morale drops and effects agency performance.
IT & Infrastructure	Development of IT infrastructure - Risk of data loss or security breach impacting critical systems.
	Capital asset damage/loss - Risk that a long-term asset is damaged or rendered unfunctional
Other	International trade - Risk of NFMC targetted as part of an international trade dispute or negotiation
	Public relations - Risk of ENGO or other interest groups negatively targeting NFMC

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 Agency Establishment and Accountability Directive. 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 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.

In North America, the United States housing market has yet to fully recover; primarily a result of a tepid economy. Multi-family housing continues to exceed average permit and start levels for the past 20-years; single-family housing starts are about 60% of their historical average. New housing sales have improved but remain at some of the lowest levels recorded since the early 1980's. Total residential construction spending has improved: single-family has increased the most since 2013, and remodelling and multifamily construction appear to have levelled off. The United States forecast is for incremental improvement through 2016. Canada's housing market has remained steady and projections are for a gradual improvement in starts and sales through 2016.

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. With Americans buying more new homes than at any time since the recession, the cost of the wood used to build them is rising. Lumber prices are off to their biggest rally in more than a decade, touching a 19-month high last week as demand increased from builders. But almost a

third of all wood used in U.S. homes comes from the world's top exporter, Canada, where surging shipments have compounded a trade dispute and increased the chances of import tariffs that may top 30 per cent.

With demand for lumber slowing in Asia, Canada stepped up sales to its southern neighbour. Exports surged to 7.45-billion board feet of lumber in the first half of the year, up 20 per cent from the same period a year earlier, government trade data show.

Failure to reach a deal by Oct. 15 — the one-year anniversary of the expiry of the old, nine-year Softwood Lumber Agreement — would allow U.S. producers to petition Washington to impose new duties. The forest industry should prepare for the possibility that there will be no agreement and the risk Canada will be forced into litigation.

The pulp, paper and paperboard market was once again in flux, as large concentrations of graphic paper capacity continued to be rationalized in Europe and North America — a development that has persisted for well over a decade now. South American expansions of chemical market pulp capacity continued to affect UNECE producers, with tonnage easily absorbed by first the tissue and packaging segments, and second by consumers wanting to reduce their use of higher-cost softwood kraft grades. Southeast Asia remained the favoured target market, despite a marked slowdown in the level of investment in new paper and paperboard installations to serve rapidly growing economies. The ramifications of these and other changes are being felt on a global basis.

While global demand for pulp and paperboard grew in 2014, graphic paper consumption fell. Electronic communication continued to play a major role in the evolution of the pulp and paper segments, while paperboard actually benefitted from increased online shopping.

In the pulp sector, expansions of bleached hardwood kraft capacity in South America continued to be by far the most important factor influencing the market in 2014 and 2015. In the paper sector, the current trend continues to be to convert production to paperboard and packaging grades.

Prices in the pulp sector corrected in general in 2014, while hardwood kraft grades rebounded on a significant price advantage over higher-priced softwood-based pulps; by mid-2015, pulp prices appeared to have stagnated on poor pricing of end-use products downstream. The weaker Canadian currency has provided export opportunities and improved margins for pulp and paper producers.

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 outlook for forest biomass is favourable as the government continues to advocate the use of renewable energy through various policy initiatives. The movement towards more renewable energy will

translate into increased demand for previously unmerchantable fibre produced by harvesting activities. This will provide additional revenue to NFMC from the management area as well as reduced forest renewal costs typically associated with addressing non-merchantable fibre prior to renewing the forest. Sale of biomass on the management area will continue to be restricted by distance from market.

Overall, factors look favourable for the continued recovery of key forest sector markets in the mid to long-term. This sustained recovery presents some upside to the operation of NFMC in 2017 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 following the mill's resurrection it will be 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 was expected to result in significant cost savings to the mill and additional revenue stream from sale of electricity. The cogen facility was included when Haavaldsrud went into receivership. There is a new owner for the sawmill who is working on a new operating plan for the facility and it has yet to be determined how the cogen facility will fit into that plan. Initial estimates indicate that around 44% of wood for the cogen would come from residuals from the sawmill operations so there is a requirement for the sawmill and cogen to work together. 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 sawmill is currently not operating at capacity 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 Limited Partnership 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 but still has supply commitments that must be considered, especially before wood is made available to other facilities or the open market.

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 a conversion to dissolving pulp will provide more stable outlook and operation of the facility, even in the face of China's anti-dumping tariffs. Until the conversion is complete AV Terrace Bay continues to be considered a high risk operation to the financial performance of NFMC due to the amount of wood supply the mill consumes and the lack of alternative consumers who could compensate for the loss of such a large volume of demand for local wood supply. The operation of a facility in Terrace Bay is also highly important to the sustainable operation of area sawmills as a destination for residual sawmill chips.

C) Panel and Board Mills

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

1. Levesque Plywood Ltd. – considered a core customer and market for up to 107,000 cubic meters of veneer quality hardwood annually, however, the ability to meet the commitments is hampered by operational challenges associated with extracting veneer quality logs. 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 NFMC intends to make all veneer quality poplar to Levesque. The primary challenge facing Levesque is getting wood to the mill 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 NFMC.

D) Biomass Mills

Biomass markets and customers are a relatively new and developing opportunity for the management area and for NFMC. 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 announced in 2017 that its Wawa pellet mill is being indefinitely idled while the company conducts a “strategic review” of that facility and the company’s entire direction. Rentech’s pellet production was expected to begin in 2015, 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 the past. As local commitment holders restarted the volume to Tembec's mills has declined but could expand in the future.
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 5.

Table 5. 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>Big Pic, Pic River, White River forests certified by 2017-18; Nagagami 2021-22</p> <p>Favourable audit findings</p>

Goal	Performance measure	Standard/Target
		Development spending, memberships in organizations such as FERIC, support for education
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? 	\$200,000 to 500,000 of free cash flow \$0.3 million operating reserve by year end 2015-16 \$2.8 million operating reserve by year end 2016-17 No aged accounts receivable listing beyond 90 days
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? 	100% of commitment volume made available Percentage of wood made available to open market customers Positive utilization trends
Meeting governance requirements	<ul style="list-style-type: none"> - Have government directives been followed (ie AAD) <ul style="list-style-type: none"> - Completion of Annual Business Plan - Risk Assessment Evaluation - Annual Report 	All reports submitted on time Posting of reports to website
	<ul style="list-style-type: none"> - In addition to the AAD, all classified agencies must adhere to <ul style="list-style-type: none"> - Accountability Directive - Advertising Content Directive - Delegation of Authority Key Directive (MOF) - Government Appointees Directive - Travel, Meal and Hospitality Expenses Directive 	100% compliance with directives Development of relevant NFMC policies Creation of Governance Committee to report to board
Building new local forest related industry	- Have local economic development opportunities been created/supported by NFMC operations?	Establish benchmarks for current levels Targets to be determined
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? 	Establish benchmark for current levels Targets to be determined
Engaging the community in forestry	- How have communities interests been represented by NFMC operations and decisions?	# of Events attended # of Newspaper Articles

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. The NFMC does not have a broad range of customers and instead sells to large established businesses and only encounters issues around collecting receivables in the event of a failure. NFMC's accounts receivable policy ties deliveries to the prompt payment of invoices, therefore companies are incentivized to stay current. The bankruptcy of OHTC resulted in minimal financial impact to the NFMC. One of the functions of the operating reserve will be to cushion the NFMC in the event of a failure by one of its key customers.

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 6. NFMC Harvesting Targets

Harvest (m3)	2017/18	2018/19	2019/20
Conifer	766,500	1,090,000	1,165,000
Hardwood	42,000	92,000	96,600
Biomass	50,000	52,500	55,125
Total	858,500	1,234,500	1,316,725

The volume targets for 2017-18 and 2018-19 are based on three SFL's. It is assumed the Nagagami will be added in the future and the 2019-20 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 and perhaps Nakina.

The NFMC volume in 2017-18 (and related revenues) is expected to increase from 2016-17 due to the inclusion of the White River SFL with an increase again in 2018-19 with projected productivity increases at AVTB and White River Forest Products plus the addition of Hornepayne Lumber and in 2019-20 the Nagagami SFL as shown in Table 6.

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. 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. Due to delays in receiving funds from the 2015-16 funding agreement, an agreement was not completed for 2016-17. NFMC will receive the balance of FFT funding when 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. 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 obligated 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 forecast amount above minimum balance on the Big Pic is higher than the forecast deficit on the Pic River.

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

NFMC 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 NFMC as part of its normal operations.

Expenditures, Projected Revenues, Funding Requirements

The expenditures are expected to increase over time as NFMC increases its management responsibilities and adds area to its landbase, but more slowly than revenue increases. Total expenditures are estimated at approximately \$2 million in 2017-18 for the Big Pic and Pic River management units and the White River SFL is transferred to NFMC. Contractor and planning costs are expected to decrease between 2018/19 and 2019/20 when the FMPs are completed, however, total expenditures will still reach \$2.3 million when the Nagagami is added.

The administration fees are calculated on a breakeven basis. Administration fees are designed to cover operating costs related to delivering fibre to NFMC'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 rate for 2016-17 is \$0.96 per m³ and no change is expected in 2017-18. The objective is to achieve an administration fee of \$0.75 per m³ by 2019-20 when all units are under NFMC management and operational synergies can be achieved. NFMC does not charge an admin fee on biomass.

NFMC receives the residual stumpage value. The total amount of stumpage received by NFMC 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 NFMC 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 2015-2020.

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 a new rate when a new MOA is signed with the implementation of the new FMPs.

NFMC expects to generate stumpage revenue of \$2,600,000 in 2017-18. Revenues from stumpage are expected to begin flowing to the Agency once 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 in 2017-18 is estimated at \$6 million after all accounts have been reconciled and any outstanding obligations cleared. When NFMC meets the obligations for the SFL transfer assumes the Nagagami SFL in 2018-19 it will receive the balance in the trust fund estimated at over \$2.5 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 over \$7 million by 2017-18. 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.

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

Table 7. Summary of NFMC projected revenues, expenditures and net income

	2017/18	2018/19	2019/20
Revenue	\$9,387,930	\$3,871,000	\$7,636,075
Operating Expenditures	\$2,242,092	\$2,364,386	\$2,284,520
Excess Revenue Over Expenses*	\$7,145,838	\$1,506,614	\$5,351,555
Additional Expenditures**			
Strategic ()	(\$450,000)	(\$450,000)	(\$600,000)
Forest Improvement ()	(\$0)-	(\$450,000)	(\$500,000)
Forest Contracting ()	(\$700,000)	(\$700,000)	(\$200,000)
Forest Infrastructure/ Access ()	(\$950,000)	(\$350,000)	(\$450,000)
Unforseen/Contingent ()	(\$400,000)	(\$200,000)	(\$200,000)
NET Assets Unrestricted	\$4,032,392	\$4,039,006	\$7,640,561
NET Assets Restricted (cumulative)***	\$3,200,000	\$3,200,000	\$3,500,000

* Net Income does not include contributions to an operating reserve.

** 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 as defined by the Board

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 over \$6,000,000 for the 2019-20 fiscal year and beyond depending upon targets set by the Board. NFMC has targeted maintaining at least 2 years of operating costs in the reserve, which 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. The NFMC will not engage in new strategic initiatives until the operating reserve has been established at the level set by the board.

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 MNRF 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 MNRF 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. In 2016, operations commenced on the Pic River Forest as Pic River First Nation has purchased equipment and began wood deliveries. 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 for at least one year following the license transfer. 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.

NFMC 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. Planned capital expenditures are presented in Table 8 below. For the balance of the current planning horizon, NFMC is budgeting ~ \$300,000 annually for capital associated with the Corporations needs for computer, office equipment etc. to establish satellite offices (i.e. White River and Hornepayne) and vehicles/other equipment to meet its expanding operational needs in Marathon.

Table 8. NFMC Capital Expenditures

Capital Item	2017/18	2018/19	2019/20
Roads & Bridges	\$150,000	\$150,000	\$150,000
Office Equipment	\$50,000	\$50,000	\$50,000
Leasehold Improvements	\$30,000	\$30,000	\$30,000
Computer Equipment	\$50,000	\$50,000	\$50,000
Vehicles/Equipment	\$20,000	\$20,000	\$20,000
Total	\$300,000	\$300,000	\$300,000

In the future, all capital expenditures would be fully funded from NFMC revenues. As NFMC 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 NFMC. The GM is responsible for development and implementation of the operational plan for the agency and would have the flexibility to determine whether delivery would be done by in-house staff or through service providers based on its individual business conditions.

Staff Numbers:

NFMC has eight 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 (x2)
- Silviculture Forester
- Forest Technician

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. The White River Forest is managed primarily by contractor staff that support White River Forest Products. NFMC has committed to use Jackfish River Forest Management for one year following the transfer of the SFL. JFR will provide the same core group of professionals that developed all the Annual Work Schedules since 2009, the phase two Forest Management Plan and all revisions or amendments that were subsequently required for those documents. JFR has been accountable for completing and submitting all survey work including the annual reports according to the MNRF's Forest Information Manual. JFR costs are recorded in the forest management and contractor costs, depending upon what role they are performing.

Based on NFMC's evaluation of their performance and the direction set by the board a decision will be made about future management. Presently, the intent of the NFMC is for management of the White River Forest to be brought in house after the initial transition/implementation period.

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.

Once NFMC has a better idea of the workload associated with the additional responsibility of the White River Forest, 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 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 when additional SFLs are added.

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 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 Pic River forest (certified in 2016-17). When the licenses are transferred, NFMC will review the certification plan for the White River and Nagagami Forests, the White River is currently certified. An allocation of approximately \$155,000 per year has been identified to support certification efforts as well as an allocation for forest certification maintenance activities. If the NFMC chooses to have the forest certified, the certification costs for the Nagagami will likely begin in 2021.

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 conditional contributions, 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 NMFC will ensure that two years operating costs are in its reserve funds 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 and initial estimates suggest a minimum level of \$3.2 million for March 31, 2018. 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 expanding its 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 Manitouwadge, 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 NFMC has been approached to support Pic Moberl's forestry operations. The funds will be used to support planned purchases of forestry equipment to support harvest and deliveries from the White River Forest to White River Forest Products.

Other initiatives may include activities that improve the road infrastructure and access on the different SFL's. By improving road access NFMC 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 NFMC management area related to silviculture, roads, gravel pits, etc. NFMC has made an agreement with the MNRF to address the obligation on the Big Pic and Pic River Forests. The proposal by NFMC 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 NFMC's operating revenues. One of the NFMC's management's first priorities was to improve its renewal program. The management of the NFMC 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 NFMC has developed new strategies to ensure that the renewal program will meet objectives set out in the approved forest management plans.

NFMC and MNRF have set April 1, 2017 as the target date for the issuance of the Big Pic and Pic River licenses to the NFMC. 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 NFMC, the corporation will follow the requirements outlined in the applicable forest management plan(s) and consistent with any approved compliance plan(s) that may be in place when conducting its forestry operations. These

costs have been incorporated into NFMCs forecasted budget of operating expenditures for the planning period.

NFMC has also entered into discussions regarding White River Forest and has an agreement in principle regarding the transfer of the SFL to NFMC. The two companies hope to have the license transferred in 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;
- Implement the Big Pic and Pic River amalgamated FMP;
- Finalize new MOAs based on new FMPs;
- 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 NFMC. 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.

NFMC 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 NFMC 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 another business plan was submitted in December 2016 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. NFMC 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, NFMC will complete negotiating the transfer of the White River SFL with White River Forest Products and it is anticipated

to be completed in 2017-18, at which time NFMC 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. NFMC will allow these events to play out before a decision can be made on the transfer of the Nagagami SFL to NFMC. It is hoped that the transfer can take place before the beginning of 2019-20 fiscal year.

NFMC will be moving forward with the development and implementation of the 2017-18 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 2017-18 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 is provided in Table 9 below.

Table 9. Proposed communication tactics and products

Event	Communication Tactics/Products	Target Date
Website	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- Regular updates with key staff- Regular meetings with MPPs and Minister	Ongoing
Internal communications	<ul style="list-style-type: none">- 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 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.

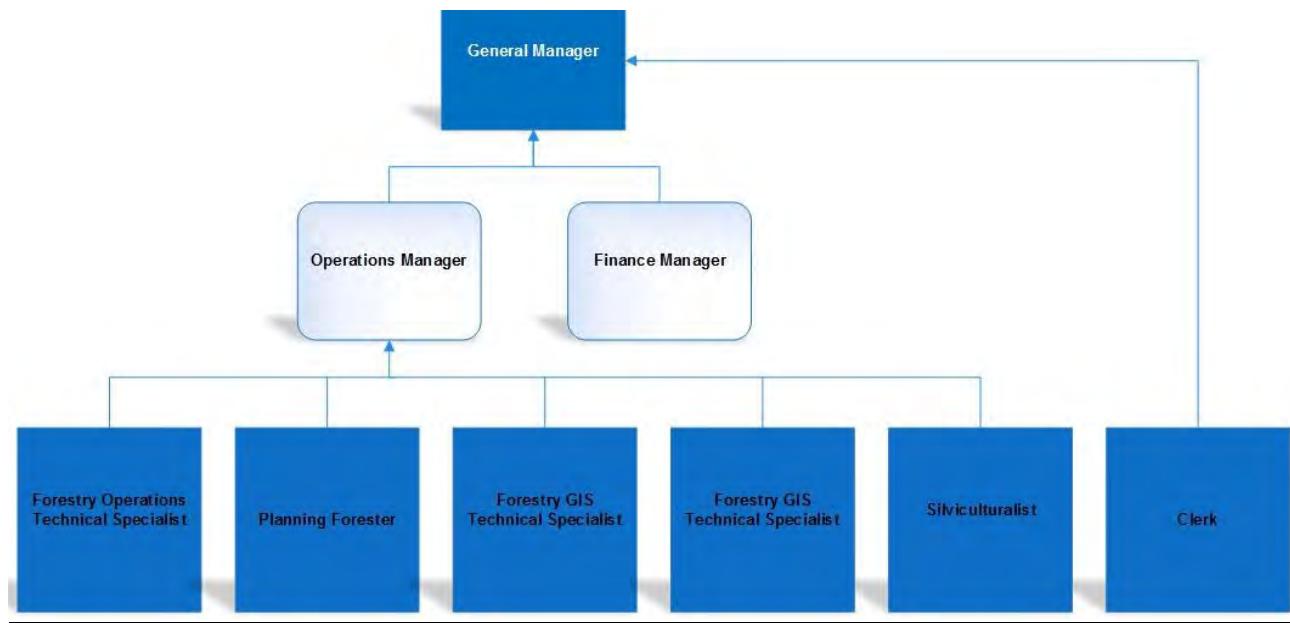
15.0 Organizational Chart

Beginning in October of 2013, NFMC staff began to assume the roles and responsibilities of the MNRF 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 2017-18 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. The organizational chart below represents the current positions within the company to manage the Big Pic and Pic River forests. Additional positions may be filled consistent with the attached compensation strategy dependent on agency needs, financial resources and the timing of transition of the White River Forest.

Figure 2: Organizational Chart (at December 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 utilized 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 for Fiscal Years 2015/16 to 2019/2020

	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST
Administration Fees	526,640	503,040	776,160	838,800	946,200
Stumpage Charge			2,611,770	3,032,200	4,189,875
Other Revenues					
LFMC Conversion Program	600,697	1,796,000	6,000,000		2,500,000
Total Revenue	1,142,294	2,299,040	9,387,930	3,871,000	7,636,075
Expenses					
Automobile	25,992	74,436	91,350	100,000	100,000
Amortization	40,909	8,648	114,400	150,000	150,000
Bank & Finance Charges	158,113	1,500	1,575	1,800	1,800
Board of Directors	39,630	28,860	45,360	49,896	50,000
Contractor Costs	217,322	395,412	346,500	300,000	200,000
Forest Certification	40,056	155,000	162,750	179,025	90,000
Forest Management	89,676	61,800	388,500	427,350	450,000
Human Resources	159,905	79,400	74,550	80,000	80,000
Insurance	29,986	18,000	18,900	24,000	24,000
License	32,613	40,296	12,600	13,860	13,860
Miscellaneous	5,936	12,000	12,600	13,860	13,860
Office	74,038	37,700	57,225	60,000	60,000
Office Lease	31,152	31,200	35,700	40,000	40,000
Professional Fees	35,708	49,000	52,500	55,000	55,000
Public Relations	5,034	35,926	38,325	36,000	36,000
Road Maintenance	215,274	300,000	52,500	60,000	60,000
Wages & Benefits	578,162	648,984	736,757	773,595	860,000
Total Expenses	1,779,506	1,978,162	2,242,092	2,364,386	2,284,520
Operating Income	(637,212)	320,878	7,145,838	1,506,614	5,351,555

Note: Expenses and revenues for 2015/16 & 2016/17 are for the Big Pic and Pic River; 2017/18 and 2018/19 includes Big Pic, Pic River and White River; 2019/20 includes all SFL's

Forestry, Other Expenditures & Reserve

	2015/16 ACTUAL	2016/17 PLANNED	2017/18 FORECAST	2018/19 FORECAST	2019/20 FORECAST
FORESTRY REVENUE					
Forest Renewal Activities	\$16,339	\$106,057	\$463,050	\$510,900	\$706,245
Forest Access Roads	\$2,019,550	\$2,035,000	\$2,635,000	\$2,635,000	\$2,935,000
Total Forestry Revenue	\$2,035,889	\$2,141,057	\$3,098,050	\$3,145,900	\$3,641,245
FORESTRY EXPENSES	ACTUAL	PLANNED	FORECAST	FORECAST	FORECAST
Forest Renewal Activities	\$0	\$106,057	\$463,050	\$510,900	\$706,245
Forest Access Roads	\$2,031,050	\$2,035,000	\$2,635,000	\$2,635,000	\$2,935,000
Total Forestry Expenses	\$2,031,050	\$2,141,057	\$3,098,050	\$3,145,900	\$3,641,245
FORESTRY NET INCOME	\$4,839	\$0	\$0	\$0	\$0
OTHER EXPENDITURES*	2015/16	2016/17	2017/18	2018/19	2019/20
Strategic (annual)	\$500,000	\$200,000	\$450,000	\$250,000	\$600,000
Forest Improvement (annual)			\$-	\$-	\$-
Forest Contracting (annual)			\$700,000	\$700,000	\$200,000
Forest Infrastructure/ Access (annual)			\$950,000	\$350,000	\$450,000
Unforseen/Contingent (annual)			\$400,000	\$200,000	\$200,000
TOTAL	\$500,000	\$200,000	\$2,500,000	\$1,500,000	\$1,450,000

* 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†	\$3,200,000†	\$3,200,000	\$3,500,000
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Note: 2015/16 & 2016/17 are for the Big Pic and Pic River; 2017/18 and 2018/19 includes Big Pic, Pic River and White River; 2019/20 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.

Nawiinginokiima Forest Management Corporation

Projected Statement of Financial Position

Forecasts for Fiscal Years 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
Current Assets					
Cash	\$1,487,511	\$913,136	\$1,635,880	\$2,432,365	\$5,243,096
Accounts Receivable	\$2,143,705	\$383,173	\$1,564,655	\$645,167	\$1,272,679
Inventory	\$900,000	\$900,000	\$900,000	\$900,000	\$900,000
Prepaid Expenses	\$4,100	\$4,100	\$4,100	\$4,100	\$4,100
Investment Funds	\$0	\$600,000	\$3,200,000	\$3,200,000	\$3,500,000
	\$4,535,316	\$2,800,409	\$7,304,635	\$7,181,632	\$10,919,876
Capital Assets					
	\$163,595	\$203,595	\$503,595	\$803,595	\$1,103,595
Less Depreciation	(79,108)	(87,756)	(202,156)	(352,156)	(502,156)
	84,487	115,839	301,439	451,439	601,439
Obligations & Liabilities					
Current obligations:					
Accounts payable & accrued obligations	\$2,454,126	\$329,694	\$373,682	\$394,064	\$380,753
Net assets (including operating reserve*):	\$2,165,677	\$2,586,554	\$7,232,392	\$7,239,006	\$11,140,561
Net Assets Summary					
Unrestricted	\$1,865,677	\$1,986,554	\$4,032,392	\$4,039,006	\$7,640,561
Restricted*	\$300,000	\$600,000†	\$3,200,000¥	\$3,200,000	\$3,500,000
Total Net Assets	\$2,165,677	\$2,586,554	\$7,232,392	\$7,239,006	\$11,140,561

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

† 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.

¥ Includes funds received from FFT trust account upon transfer of White River SFL

Nawiinginokiima Forest Management Corporation

Projected Statement of Cash Flows

Forecasts for Fiscal Years 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
Cash flows from operating activities					
Excess revenues over expenses	(\$632,373)	\$320,878	\$7,145,838	\$1,506,614	\$5,351,555
Amortization of capital assets	\$40,909	\$8,648	\$114,400	\$150,000	\$150,000
	(\$591,464)	\$329,526	\$7,260,238	\$1,656,614	\$5,501,555
Change in non-cash working capital					
Accounts receivable	\$1,676,703	\$1,760,532	(\$1,181,482)	\$919,488	(\$627,513)
Inventory					
Prepaid expenses	(\$4,100)				
Accounts payable & accrued liabilities	(\$418,196)	(\$2,124,432)	\$43,988	\$20,382	(\$13,311)
	\$1,254,407	(\$313,901)	(\$1,137,493)	\$939,871	(\$640,824)
Cash flows from financing activities					
Capital contributions received			\$0	\$0	\$0
			\$0	\$0	\$0
Cash flows from investing activities					
Acquisition of capital assets	(\$4,049)	(\$40,000)	(\$300,000)	(\$300,000)	(\$300,000)
Proceeds on sale of capital assets	\$0	\$0	\$0	\$0	\$0
Operating reserve	\$0	(\$300,000)	(\$2,600,000)	\$0	(\$300,000)
	(\$4,049)	(\$340,000)	(\$2,900,000)	(\$300,000)	(\$600,000)
Cash flow from other activities					
Other Expenditures	(\$500,000)	(\$200,000)	(\$2,500,000)	(\$1,500,000)	(\$1,450,000)
Other Repayments	\$0	\$0	\$0		
	(\$500,000)	(\$200,000)	(\$2,500,000)	(\$1,500,000)	(\$1,450,000)
Increase (decrease) in cash	\$158,894	(\$574,374)	\$722,745	\$796,485	\$2,810,732
Cash, beginning of year	\$1,328,616	\$1,487,510	\$913,136	\$1,635,880	\$2,432,365
Cash, end of year	\$1,487,510	\$913,136	\$1,635,880	\$2,432,365	\$5,243,096

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 2017/18 and beyond.
- Assumes that PRDC’s planned harvest operations continue during 2017/18.
- 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 2017/18.
- Volume for 2015/16 and 2016/17 from Pic River & Big Pic only, volume for 2017/18 and 2018/19 from Pic River, Big Pic River, and White River, volume for 2019/20 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 CFSAs S. 31).
- Administration 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 2019/20 to \$0.75 per m³ as delivered volume increases.
- Revenue projections are based on a close approximation of the current cost of wood to industry.
- Revenue for 2015/16 and 2016/17 from Pic River & Big Pic only, revenue for 2017/18 and 2018/19 from Pic River, Big Pic River, and White River), revenue for 2019/20 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 in 2017/18 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 2019/20 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 continue on the Pic River in 2017/18. The Nagagami Forest is not certified. If the NFMC chooses to have the forest certified, the certification costs for the Nagagami will likely begin in 2021.

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 2017/18.
- 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 2017/18 fiscal year.

APPENDIX III - NFMC “Operating Reserve Calculation”

Expenses	Budget*
Automobile	91,350
Bank Charges	1,575
Board of Directors	45,360
Contractor Costs	346,500
Forest Certification	162,750
Forest Management	388,500
Capacity Development	74,550
Insurance	18,900
License & Fees	12,600
Miscellaneous	12,600
Office	57,225
Office Lease	35,700
Professional Fees	52,500
Public Relations & Travel	38,325
Wages & Benefits	736,757
Total Expenses	2,075,192
Silviculture Recovery-Adjustment	-463,050
Net Costs	1,612,142

- 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)

APPENDIX IV - NFMC Risk Assessment Strategy

Risk Category	Risk Element	Assessment			Mitigation Action Plan
		Likelihood Scale	Impact Scale	Rationale	Mitigation Strategy
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	2	2	<p>NFMC has provided all required info to MNRF and the process to issue the Big Pic and Pic River SFLs is well underway, the likelihood of completing the process is high.</p> <p>NFMC has negotiated with WRFP for the transfer of the White River SFL and is working with MNRF on fulfilling any necessary transfer requirements.</p> <p>MNRF is exploring options related to the Nagagaim Forest SFL and the current financial position of the existing SFL holder (Nagagami Forest Management Inc)</p>	<p>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.</p> <p>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</p>
	IFA audit recommendations - Risk that NFMC is unable to address the concerns identified in the IFA and the FRL is not extended or the SFL is not issued	2	2	NFMC has worked proactively to address many issues it identified before the IFA. In addition, NFMC has worked with the auditors and the MNRF to develop an action plan. Finally, many of the most challenging recommendations are aimed at the MNRF.	Pic River audit took place in the 3 quarter of 2016/17. NFMC worked with the IFA auditors to provide all material. NFMC is working to preemptively address possible IFA issues, develop IFA action plan in conjunction with the MNRF.

Ability to achieve objects - Risk that strategic plan not completed and business plan does not reflect objectives	2	3	NFMC has worked with the MNRF to ensure the SFL Business Plan and Agency Business Plan are comprehensive and meet all the requirements. The plans were submitted and are currently under review.	Strategic plan developed in 2014. Plan is reviewed and updated annually in 2015 and 2016.
Financial stability - Risk that NFMC is unable to market and sell sufficient volumes necessary to generate revenue for the agency	2	4	Conifer volumes provide the highest return to NFMC and are a significant driver of NFMC viability. Currently a core number of key customers exist with demand for conifer from NFMC. NFMC has demonstrated that it can market sufficient volumes. However, the limited customer and harvester base presents some downside risk to NFMC.	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; as of March 31, 2017 balance \$2.8 million
Ability to meet stakeholder expectations - Risk that this plan and vision will not be achievable or will be inconsistent with original intent	2	3	The impact of the Agency not achieving its objectives would be considered critical as this is the first LFMC to be established and significant attention is being focused on its ability to achieve the objects set out for it. Buy in and support for the Agency has been provided by the local and Aboriginal communities as well as the local forest industry who were satisfied that the objects were in their best interests.	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. NFMC has developed an accounts receivable policy to minimize credit risks.

				Annually, NFMC develops 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 how to address any shortfalls.
				The government introduced "mandate letters" for board governed agencies and all provincial agencies are required to undergo a mandate review on a regular basis. NFMC's mandate letter was received in 2016
				NFMC will put in place stakeholder advisory and forest operation committees.
Public Image - Risk that NFMC does not garner public support or is viewed negatively by the stakeholders it is intended to benefit	1	2	<p>The Board, NFMC staff and MNRF have used targeted outreach activities with key stakeholders to ensure business interests are taken into consideration by NFMC as it transitions operations.</p> <p>Communication & dialogue with local forest industry, First Nations and communities is ongoing.</p>	<p>NFMC has developed a communication strategy included in the business plan. NFMC representatives travel to various communities and engaged in targeted outreach. NFMC working to fill board vacancies, especially from local communities (two board members added in 2016/17).</p> <p>NFMC provides regular public updates via its website as well as other forums such as interviews with new papers, participation in tradeshows, etc.</p>

Accountability/ Governance	Ensuring responsible & compliant operations - Risk that NFMC operations are not compliant with applicable rules & regulations	1	2	NFMC continues to implement operations consistent with the approved Forest Management Plan(s). In addition, NFMC has developed its own environmental program, including certification requirements as well as a JH&S. NFMC staff and contractors are trained in program and required to insure it is implemented.	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. NFMC has established a governance committee through the board.
	Internal governance and accountability mechanisms - Risk that internal policies and structure is insufficient to protect interests of the NFMC and the Ministry	1	2	NFMC has been working closely with MNRF to ensure it develops policies and procedures that are consistent with the AAD and other applicable Crown policies and directives	MOU between the NFMC and MNRF outlines roles, responsibilities and accountabilities of both the Agency and MNRF.
					By-law #1 incorporates the most current conduct & accountability standards for agencies. NFMC staff is continually receiving training on governance and accountability from OPS.
	Obligation of Directors - Risk that board members decisions create a liability for NFMC	1	1	The Board and management are required to receive governance training to help offset the likelihood and support efforts moving forward.	An Operational Review of NFMC was completed by Internal Audit Division in the fall of 2015. A joint Action Plan was developed and updated regularly by NFMC and MNRF to address the recommendations/findings. Action plan was implemented by NFMC & MNRF. Governance training and strategic planning have been completed for the Board. NFMC will continue to ensure that all appointees have taken appropriate governance training offered by the Public Appointments Secretariat. NFMC also developing policies to help board members and create professional conduct.

<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.</p>	<p>1</p>	<p>3</p>	<p>The Agency works closely with legal and MNRF to develop appropriate terms and conditions for its contractual arrangements with its service providers and ensure arrangements are consistent with legislation and applicable government directives.</p>	<p>NFMC has a retainer for outside legal support and in specific instances NFMC has obtained outside legal and financial advice.</p>
<p>Government reporting requirements - Risk that NFMC fails to fulfill government reporting requirements</p>	<p>2</p>	<p>1</p>	<p>NFMC developing a strategy to obtain and manage information related to forest management, planning and reporting responsibilities. This information is currently dispersed and held by various sources, including MNRF and private industry.</p>	<p>NFMC is continually developing and improving reporting procedures and mechanisms. NFMC working with MNRF to ensure it is meeting expectations, including regular management meetings involving NFMC and MNRF senior management.</p>
			<p>NFMC meets regularly with MNRF to review upcoming Agency reporting requirements. NFMC is in the process of designing its financial information and management systems to help generate required info.</p>	<p>NFMC and MNRF staff conduct regular meetings to discuss status of reporting requirements and to address other topics as required. NFMC created Governance Committee to report to board and address such issues. MNRF invited to attend NFMC board meetings. NFMC added board members with relevant experience in governance with OPS.</p>

	Financial reporting - Risk that internal policies and structure is insufficient to protect interests of the NFMC and MNRF	1	3	<p>The Agency operates in accordance with its MOU and follows required government agency reporting requirements.</p> <p>The Agency has developed internal accounting policies and procedures to ensure accurate and timely financial and accounting transactions.</p> <p>NFMC is also in process of implementing a system to track and monitor wood flow.</p>	<p>Financial management system in place. NFMC developed internal accounting policies and procedures, consistent with this framework to ensure accurate and timely financial and accounting transactions. 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 fall of 2015. A joint Action Plan was developed and updated regularly by NFMC and MNRF to address the recommendations/findings. Action plan implemented by NFMC & MNRF.</p>
Operational	Market - Risk that the demand for wood will impact on cash flow	2	3	<p>Overall, factors look favourable for the continued recovery of key forest sector markets in the mid to long-term. This sustained recovery presents some upside to the operation of NFMC in 2016 and beyond.</p>	Ongoing monitoring of start-up funding available in the LFMC Conversion Program of the Forestry Futures Trust;
					<p>Operating reserve established in 2014/15; current balance of \$300,000; as of March 31, 2017 balance \$2.8 million</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.	2	3	<p>Currently new Forest Management Plans are under development and NFMC may have to implement new policies.</p> <p>NMFC is working with MNRF staff to review requirements to balance wood supply and environmental regulations</p>	<p>NFMC is working closely with MNFR and has joined the OFIA to get constant updates on policy changes. NFMC will continue to advocate science based management.</p> <p>NFMC ensures staff have appropriate compliance training and experience. NFMC has also started a database to track employee, board members and contractors training.</p>
	Contractor risk – major contractor unable to supply mills	2	4	The limited harvester base on the NFMC management area presents some downside risk to NFMC. NFMC relies upon one primary contractor.	NFMC continues to support contractors and work to attract new contractors. NFMC has initiated strategic initiatives aimed at increasing the contractor base on the landbase. NFMC will continue to work with mills to ensure it is competitive. Recent successes include the expansion of B&M, and contracted harvesting operations by Pic River, Lecours and Longlac .
Financial	Stumpage risk – customers unable to pay stumpage arrears	3	4	Experts predicting a continued recovery of key forest sector markets. However, some mills have faced operational challenges and have periodically fallen behind.	<p>NFMC Monitoring customer payments/balance consistent with accounts receivable policy. NFMC also established an operating reserve.</p> <p>Operating reserve established in 2014/15; current balance of \$300,000; \$2.8 million March 31, 2017; and projected to reach \$3,200,000 by 2017/18</p>
	Unforeseen Event risk - risk of 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 (eg. bridge issue)	2	4	As NFMC assumes additional licenses it increases the management area and forestry infrastructure (roads, culverts, bridges, pits, etc) for which it is responsible; climate change and other environmental factors are increasing the likelihood/occurrence of unplanned events	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.

					Operating reserve established in 2014/15; current balance of \$300,000; projected to reach \$4,800,000 by 2017/18
Workforce	Attracting talent - Risk that NFMC is unable to attract qualified personnel to fill vacancies.	3	3	Attracting and retaining qualified employees and/or service providers that meet the intent of supporting locally based economic development may be difficult given the remote location of the management area	NFMC has had difficulty attracting professional staff. 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. NFMC has recognized the needs to grow skills internally and is preparing for this through staff training and development.
	Employee relations - Risk that employee morale drops and effects agency performance.	2	3	NFMC has established the policies and procedures to move forward with recruitment of senior management and other staff for the Agency.	NFMC has developed Human Resources policies and procedures as well as a joint health and safety program to ensure a safe and productive workforce. The NFMC safety program has now been adopted by contractors on the landbase.
IT & Infrastructure	Development of IT infrastructure - Risk of data loss or security breach impacting critical systems.	1	3	NFMC has engaged highly qualified contractors and professionals to design and maintain IT infrastructure.	NFMC has a procurement policy that is applied to tendering for services from qualified vendors with established IT infrastructure.
	Capital asset damage/loss - Risk that a long-term asset is damaged or rendered unfunctional	1	1	NFMC currently does not have any major capital assets.	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	2	3	The current SLA has expired and Ontario is currently working with Federal and Provincial counterparts to establish a new SLA.	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	2	3	NFMC is pursuing independent certification of its forest management practices on the forests it is responsible for managing. NFMC works hard to ensure that the interests of the local First Nations, local communities and	NFMC has committed to expand (Pic River) and maintain (Big Pic) FSC certification. The FSC audit for Big Pic & Pic River are scheduled for Nov/16. As well NFMC will address IFA issues and concerns. NFMC will review certification of other SFL's when licenses are transferred (White River)

			local forest industry are being considered and addressed	currently certified). An action plan for Nagagami (currently uncertified) will be developed.
				NFMC regularly participates in tradeshows and events, outreach and update via website to secure support from local communities.