

# Sapawe/Crossroute Forests Main Group Meeting 2 May 11, 2018

Progress Report

## Outline of Meeting

1. Forestry Futures Trust Funding
2. FFT Fund Administrator
3. Working Group meetings and participation
4. Review of draft Conceptual Business Arrangement
5. Next steps:
  1. Submit CBA to Forestry Futures Trust.
  2. Develop Shareholder Agreement based upon principles in CBA

**NEWCO Enhanced  
Shareholder SFL**

Consumptive Rights Holders, Harvest Rights Holders, First Nations, Metis and Municipal Economic Development Entities

**FF OLG &  
Flanders OLG**

**SFL Appendix F (Volume )**

**FRL Overlapping  
Licence Agreement**

**Norbord & others**

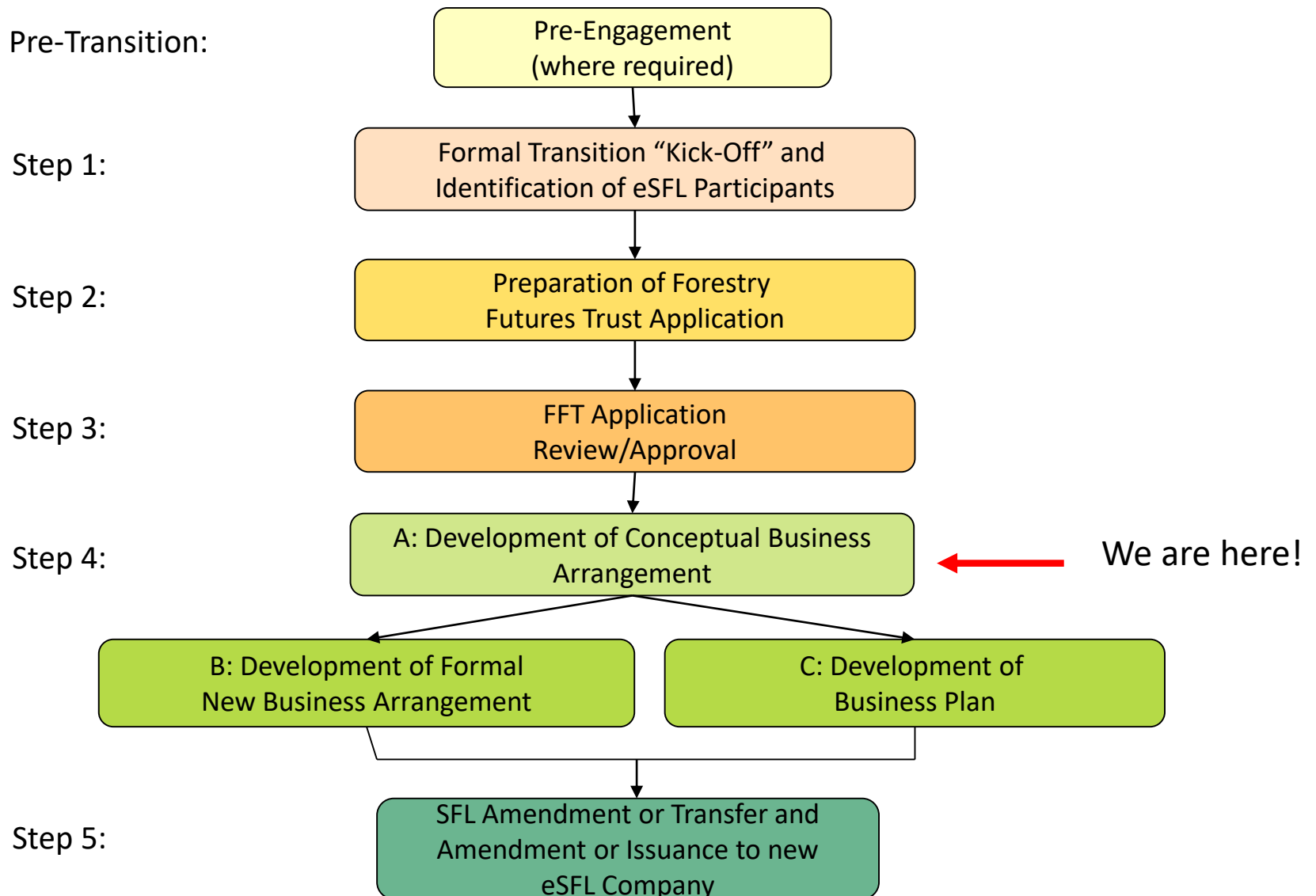
**Supply Agreements Commitment Letter, SFL Appendix E  
(Area or Volume)**

**NEW COMPANY  
is responsible for  
this**

**Sustainable Forest Licence (SFL)  
("Area Based")**



# General eSFL Transition Steps



## Since we last met:

1. FFT application revised and submitted to FFT.
2. FFT approved application: March 7 2018
3. Working Group has been active:
  - Three meetings: Mar 8, Apr 13, Apr 27
  - Draft Conceptual Business Arrangement developed for discussion today.

# Working Group Participants

1. Ideal size would be 10-14 participants.

2. Representation:

- a) Forest Industry
- b) First Nations
- c) Metis
- d) Independent Operators
- e) Municipalities



10-14  
PARTICIPANTS

3. Key Points:

- a) consistency of attendance
- b) Expertise and ability to represent

# Working Group Participants

- Roger Barber, Resolute FP
- Gary Both, Rainy Lake Tribal Resources Management Inc.
- John Connor, MNO
- Leon Degagne, Independent Operator
- Brian Gouliquer, MNO
- Ralph Horn, OMNRF
- Dale Kaemingh, Manitou Forest Products
- Eric Kaufman, Consultant
- Rick Kziezopolski, Norbord
- Kendall Lundy, Nickel Lake Lumber
- Gary McKinnon, AEDC
- Peter Moen Boundary Waters LP,
- Tom Ratz, Resolute FP
- Glen Smith, Naicatchewenin FN
- Mike Willick, RRFDC
- *Several other Independent operators attended individual meetings*

# FFT Application

1. As a result of our 1<sup>st</sup> Main Group meeting application submitted to FFT.
2. FFT approved application with some minor clarifications.



FUTURES  
TRUST  
ONTARIO

## Enhanced SFL Transition Program Notice of Project Approval and Payment Authorization

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The following has been approved for funding from the Forestry Futures Trust:

**ESFL Project #:** ESFL-007-2018  
**ESFL Name:** TBD (Crossroute and Sapawe Forest)  
**Fiscal Year(s):** 2018/19 and 2019/20  
**ESFL Contact Person:** Tom Ratz Resolute Forest Products Inc.  
Peter Moen Boundary Waters

**Proposed ESFL Management Area:** Crossroute and Sapawe Forest

**Approved Maximum project funding:** \$ 351,048.00

Payments in relation to this project made by RBC Dexia Investors Services Trust to the Payee shall not exceed the amount of \$351,048.00



## FFT funds Administrator

- Three parties offered to be FFT funds Administrator.
- The participants elected Rainy River Future Development Corporation as the successful applicant.
- The process has been set-up and is now functioning through this organization

# Responsibilities and Duties

1. Manage funds allocated from Forestry Futures Trust.
2. Approve and issue payment of invoices and bills (approximately 4-8 invoices per month)
3. Remit invoices to FFT for **re-imbursement**. Timely submission is critical.
4. Coordinate with Facilitator quarterly reporting to FFT.
5. Report to Main Group meetings with status of spending.
6. Estimate of 10-12 hours of work per month to complete tasks.

Main Principles and content of Agreement

# **CONCEPTUAL BUSINESS ARRANGEMENT (DRAFT)**

# Conceptual business arrangement (CBA)

High level conceptual agreement on how parties plan to proceed with development of business corporation. 6 months has been allowed for this step. The CBA will explain, at a high level, the basic structure of the new company :

- a) Share & Board structure, composition & voting
- b) Who pays and when
- c) Allocation process: harvest history and rights; who cuts what.
- d) Consumption process: recognition of directives and wood flows
- e) “On and off ramps”
- f) Performance/Non performance
- g) First Nation capacity opportunities

# Some key Principles from OMNR “Principles” Document

12. The composition, structure and governance of eSFL Companies will be flexible to address local circumstances and interests of local eSFL participants (including the Local Aboriginal Communities, Local Forest Industry, Local Communities and MNR).
13. The eSFL Company's Business Agreement (e.g. shareholders agreement) will respect existing wood supply and harvest commitments.
14. The eSFL transition process will respect harvest and wood supply commitments of current shareholder SFL Companies, and current shareholders will have the option, at their sole discretion, to remain shareholders in the eSFL.
15. Existing wood supply and harvest commitment holders will have the option, at their sole discretion, to become shareholders and nominate representation to the Board of Directors of the eSFL Company.
16. The Business Agreement will provide opportunities for membership changes including attrition and recruitment of new shareholders and provisions for new entrants.

# Some key Principles from OMNR “Principles” Document

17. Local Aboriginal Communities and Local Communities will be provided the opportunity to participate in the eSFL Company with a minimum of 1 voting Board of Director positions reserved for Local Aboriginal Communities and 1 for Local Communities as Outside Directors.
18. Board Directors representing shareholders with financial obligations will have proportional influence over financial decisions of the eSFL Company while ensuring all directors, including Outside Directors, have a vote in all decisions. No individual member will have the ability to directly or indirectly control the eSFL Company.
19. An Independent General Manager shall be hired/retained/report to the Board of Directors with primary responsibility for sustainable forest management, as directed by the Business Agreement.
21. The Board of Directors will be bound and directed by the Business Agreement which will foster good governance practices.
22. The eSFL Company will promote the sustainable use of the full available Crown wood supply by ensuring it is used or made available to others for use.

# Shareholders, Directors and Wood Rights!

## Directors:

- The majority of decision making within NEWCO is held by the Directors.
- Directors are nominated by Shareholders

## Shareholders:

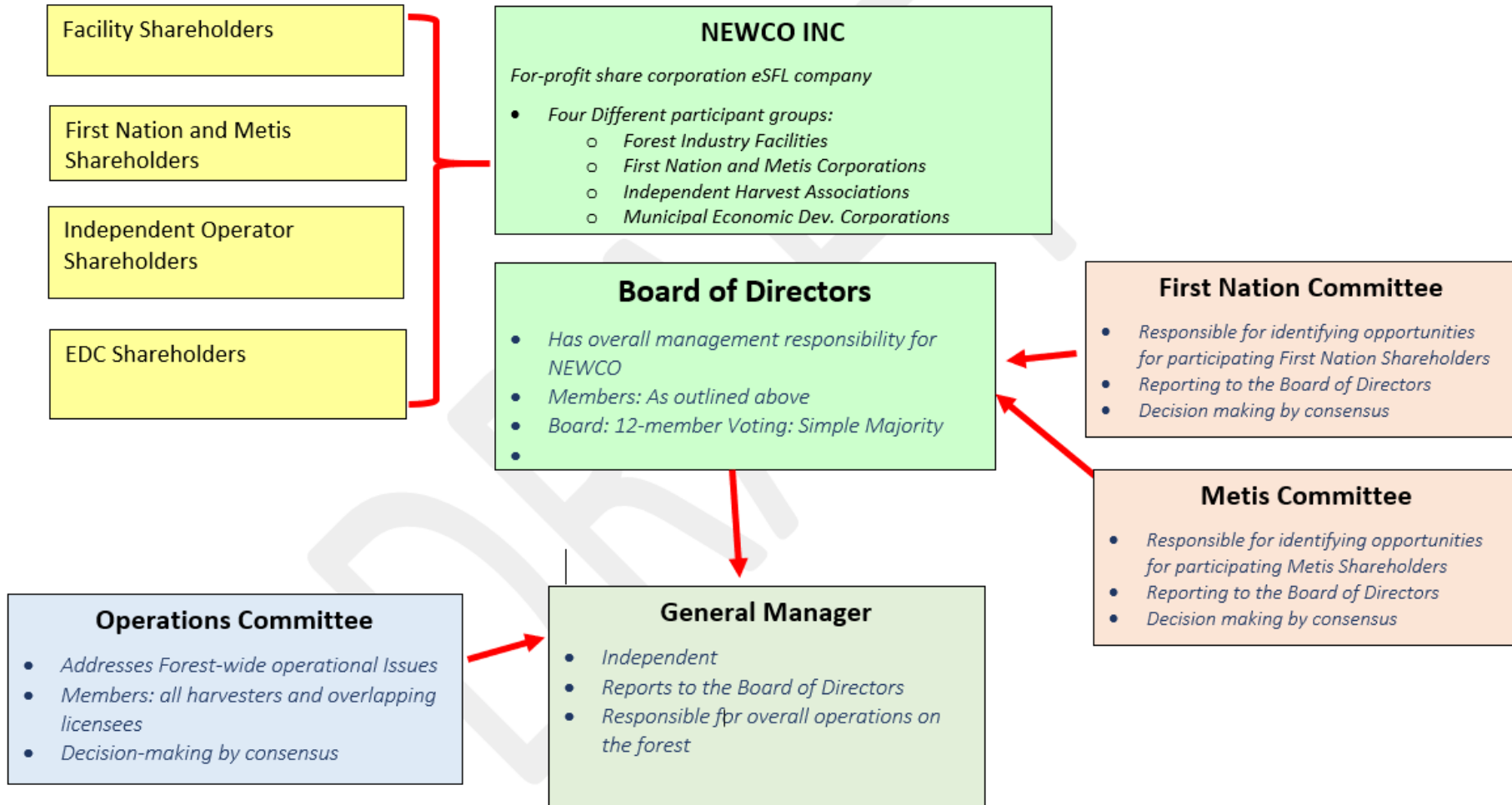
- Within NEWCO shareholder decision making is **limited to:**
  - Nominating directors,
  - Changing the signed Shareholder Agreement
  - Dissolving the Company

## Wood Rights:

- NEWCO does not assign initial Harvest and Wood Rights; this is the job of the OMNRF
- NEWCO's job is to respect these existing wood rights and directives!

## APPENDIX 5

## CONCEPTUAL NEWCO ORGANIZATIONAL MODEL





# Corporate Structure and Management

## 1. Board (s) of Directors

- Need to define number and composition of Boards
- Director as defined in the Business Corporations Act.
- Who will be signatory to the Agreement?

## 2. Directors and Shareholder's Powers

## 3. Officers of the Company

- Who are the officers of the company?
- How long is their term? Is there a restriction to the number of terms.

## 4. Description and Role of General Manager

# Corporate Design and Set-up

Type of Corporation: “For Profit” = Cost Recovery

Classes of Shares: Two types:

Class “A” **voting** ;

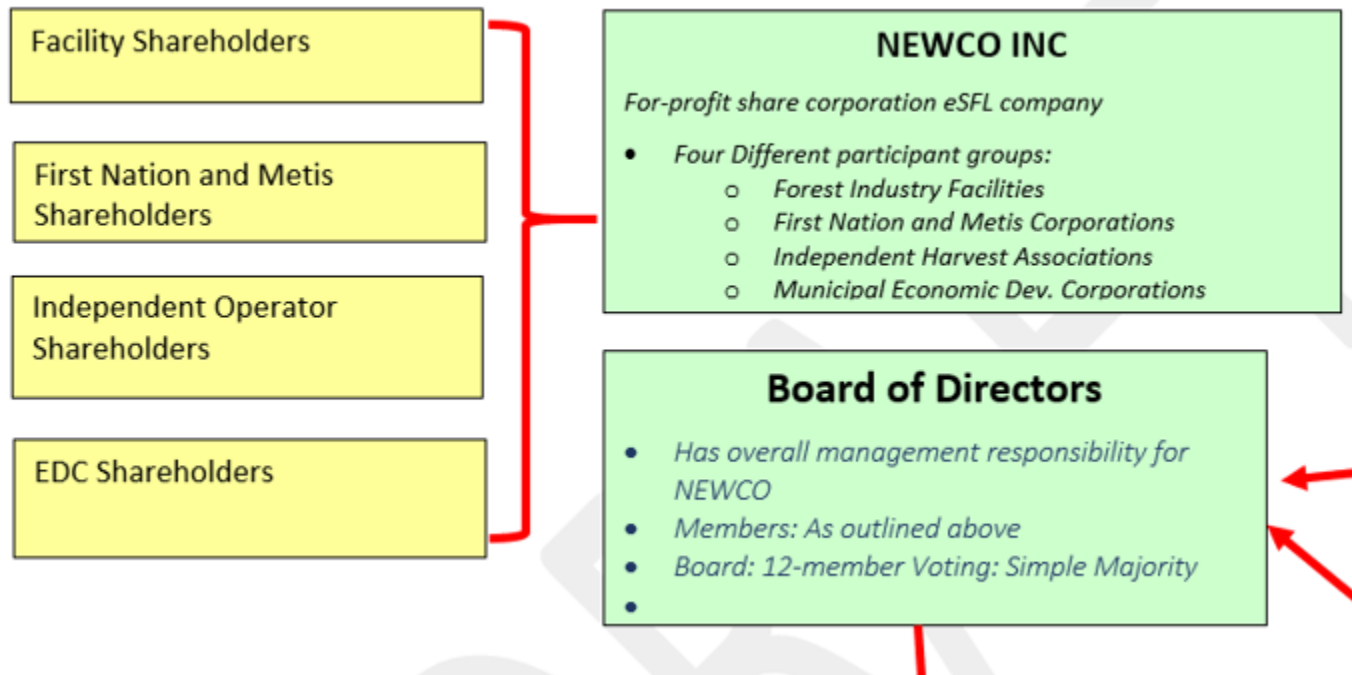
Class “B” **non-voting except financial**

Nomination of Directors: Class A Shares:

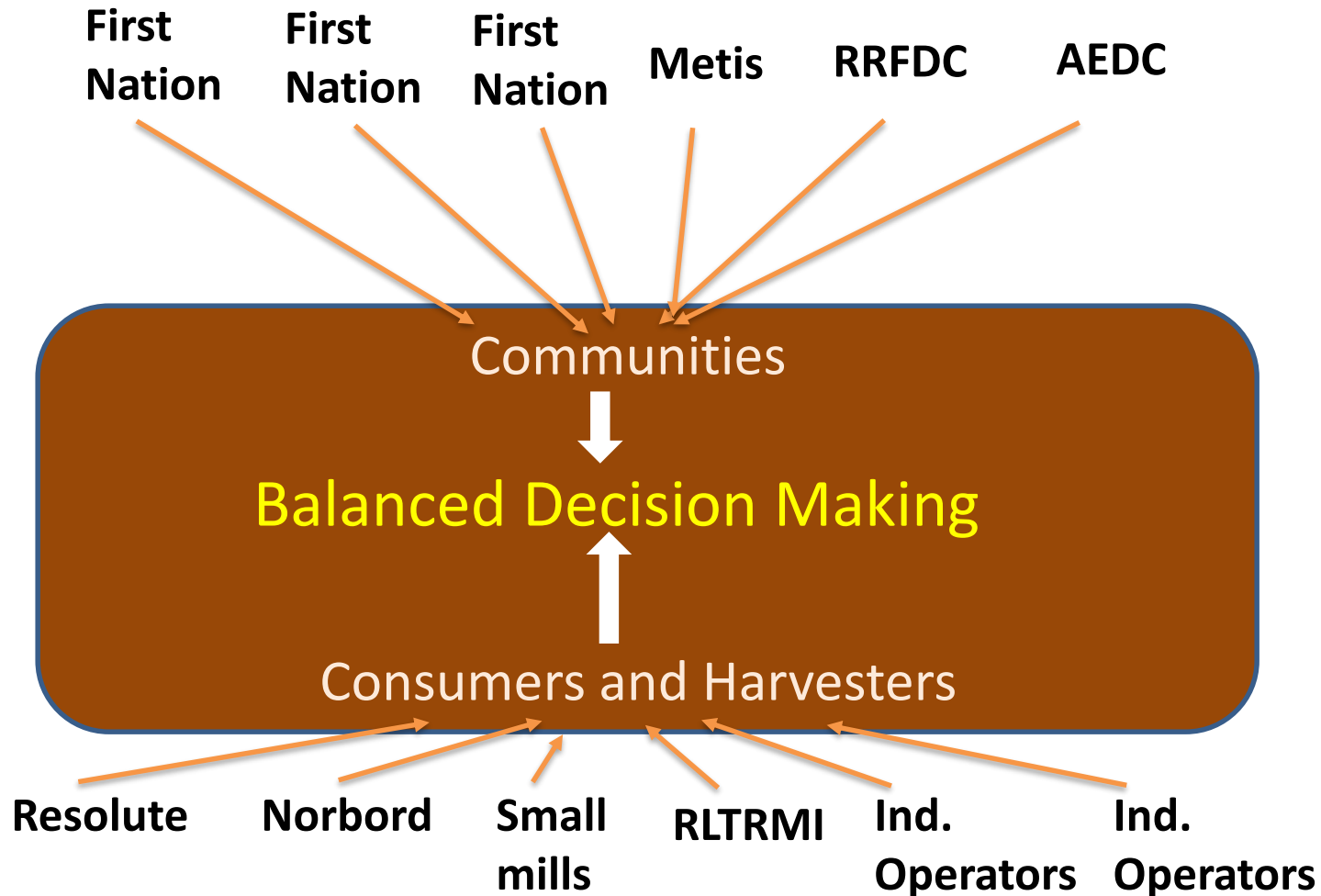
**One Party**: Those shareholders with one party: they appoint one director: Example: Resolute FP, Norbord, AEDC

**Multi-Party**: Nominate directors based on their aggregate shares: Example: First Nation, Metis, Minor Consumers

# Corporate Structure



# NEWCO Board: Initially 12 seats



# Decision Making

## Shareholder Decisions: Restricted to:

- nominating Directors
- Wholesale changes to Shareholder Agreement
- Dissolution of NEWCO

## Directors Decisions:

- Majority of decision making for Corporation

**Class A Shareholders** participate in all decisions except limited and identified financial decisions.

**Class B Shareholders**: participate in financial decisions if no decision with full Board.

# Class A Voting Share Distribution

**Class A: would have a total of 1200 shares Issued= equals 12 Director positions on the Board**

<b>Atikokan Economic Development Corporation</b>	<b>100 shares</b>
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<b>First Nations</b>	<b>300 shares</b>
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*At this stage it is **uncertain how many First Nations will participate** as shareholders. In the aggregate, they would have **300 shares**, so if there were six who participated, each First Nation would be issued 50 shares. If any First Nation leaves the Corporation or if any new First Nation comes on as a shareholder in the Corporation, their shares can be adjusted within the aggregate of 300 shares]*

# Share Distribution Continued

## **Independent Loggers Association**

**200 shares**

*This party is a **single incorporated entity**, which means that there would be one share certificate issued for **200 shares**. If the intention is that the Loggers within the Association itself might have conflicting interests, and might from time to time wants to split their votes, then we need to find a solution.*

## **Major Consumer: Norbord Inc.**

**100 shares**

## **Major Consumer: Resolute FP Canada Inc.**

**100 shares**

## **Metis Nation Ontario**

**100 shares**

*At this stage it is uncertain how many Metis will participate as shareholders. In the aggregate they would have **100 shares**, so if there were two who participated, each Metis Organization would be issued 50 shares. If any Metis Organization leaves the Corporation or if any new Metis Organization comes on as a shareholder in the Corporation, their shares can be adjusted within the aggregate of 100 shares.*

# Share Distribution Continued

## **Minor Consumers**

**100 shares**

*As with the First Nation and Metis shares, we might consider splitting these 100 shares among the minor consumers, namely Manitou, Nickle Lake and True North, 33.33 shares each, and as minor consumers come on or leave the Corporation, the total 100 shares can be readjusted among them.*

**Rainy Lake Tribal Resource Management Inc.**

**100 shares**

**Rainy River Future Development Corporation**

**100 shares**



# Class B Non-Voting Share Distribution

## Class B: 1000 shares Issued

These shares would be non-voting on all issues at the Director's table except where a financial issue is **brought to a vote**.

Their shareholdings are based upon the consumption as described below:

Norbord Inc.	256
Nickel Lake Lumber Inc.	17
Resolute FP Canada Inc.	653
Manitou Forest Products	17
True North Timber	57
<b>TOTAL</b>	<b>1000</b>

If consumption rights change in the future, either increasing or decreasing the parties' consumption rights, or if new consumers come into the picture, then the totality of the consumption is divided proportionately so that there will always be 1000 Class B shares held in proportion to consumption.

# Voting

All decisions (except identified financial):

- Consensus building process
- If no consensus, simple majority: 7 of 12
- Quorum for a meeting shall consist of majority of Directors and having at least one Director representing each share class



**“Of course we’ll make a decision ...  
once we have considered the 5243 factors.”**

# Financial Decision Making: Steps

## Steps:

1. Generally, General Manager prepares annual budget (includes mgmt. fee, admin fee, renewal rate etc.)
2. General Manager would most likely have preliminary discussions with consumers and harvesters for general guidance.
3. General Manager presents budget to Board for discussion and review.
4. If Board gives consensus support, budget would pass.
5. If no consensus acceptance of budget, Class B shareholders proportional vote to an approved minimum threshold of acceptance:

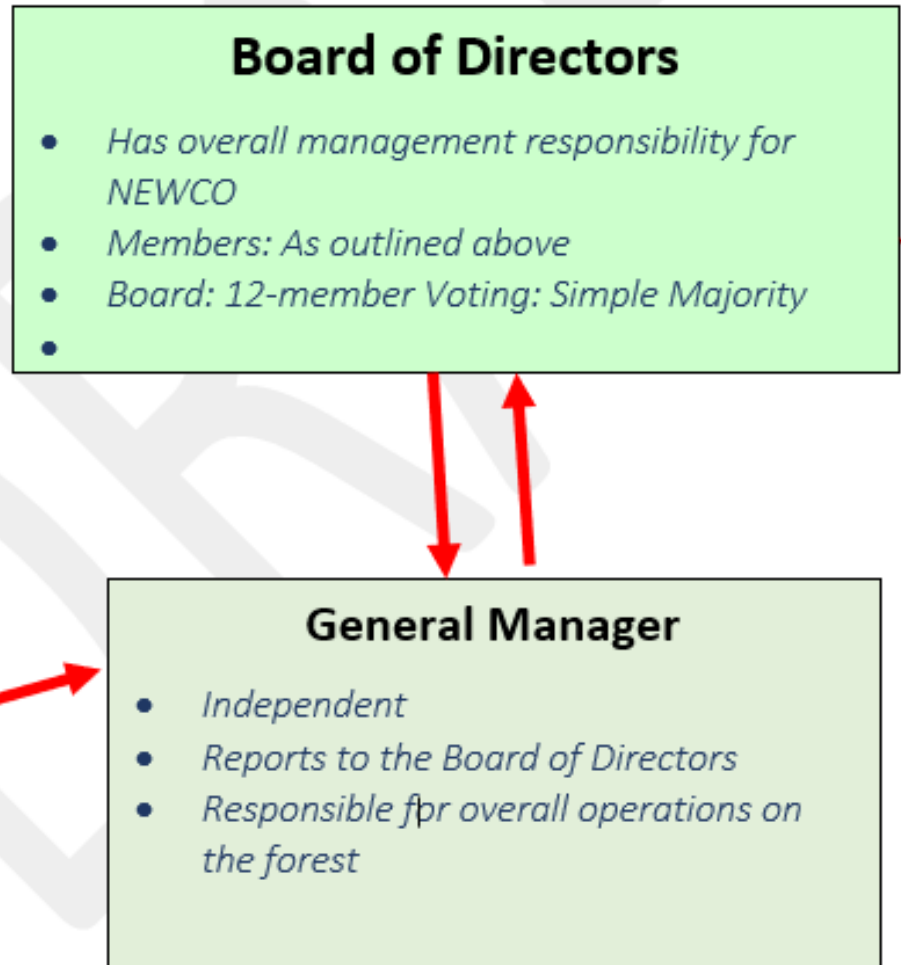
***Example 92% of shares would require two large consumers and one small consumer.***

# General Manager

- **Must be Independent of the parties**
- Will be an “employee” of NEWCO
- Strong experienced leader and manager

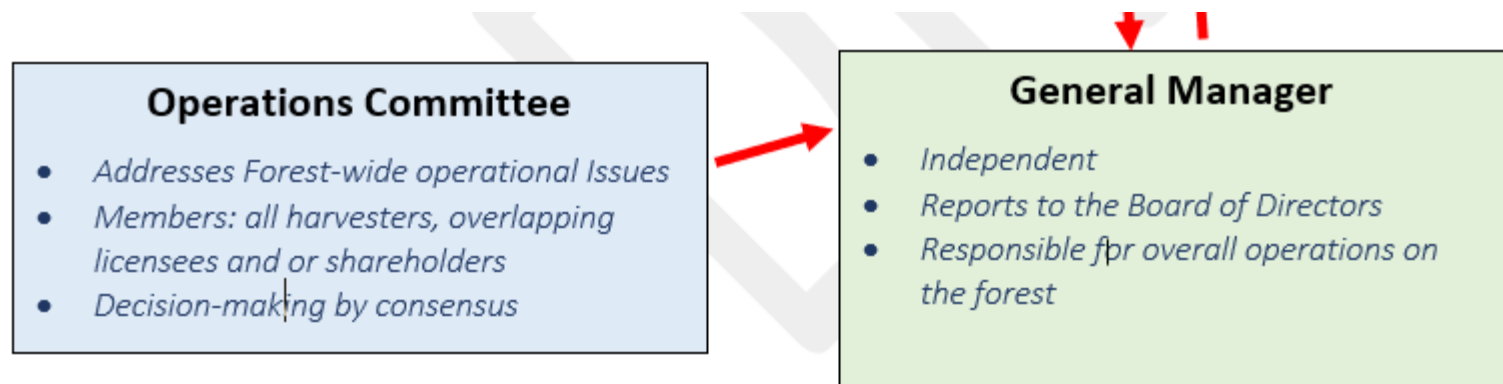
## Description and role of General Manager

- Manage day to day operations
- Prepare FMP, AWS, Annual reports etc.
- Operating budget
- Hiring and firing of staff
- Develop overlapping licence agreements etc.
- Report material non-performance issues.
- Recommend management fees
- Monitor payment of stumpage and crown dues.

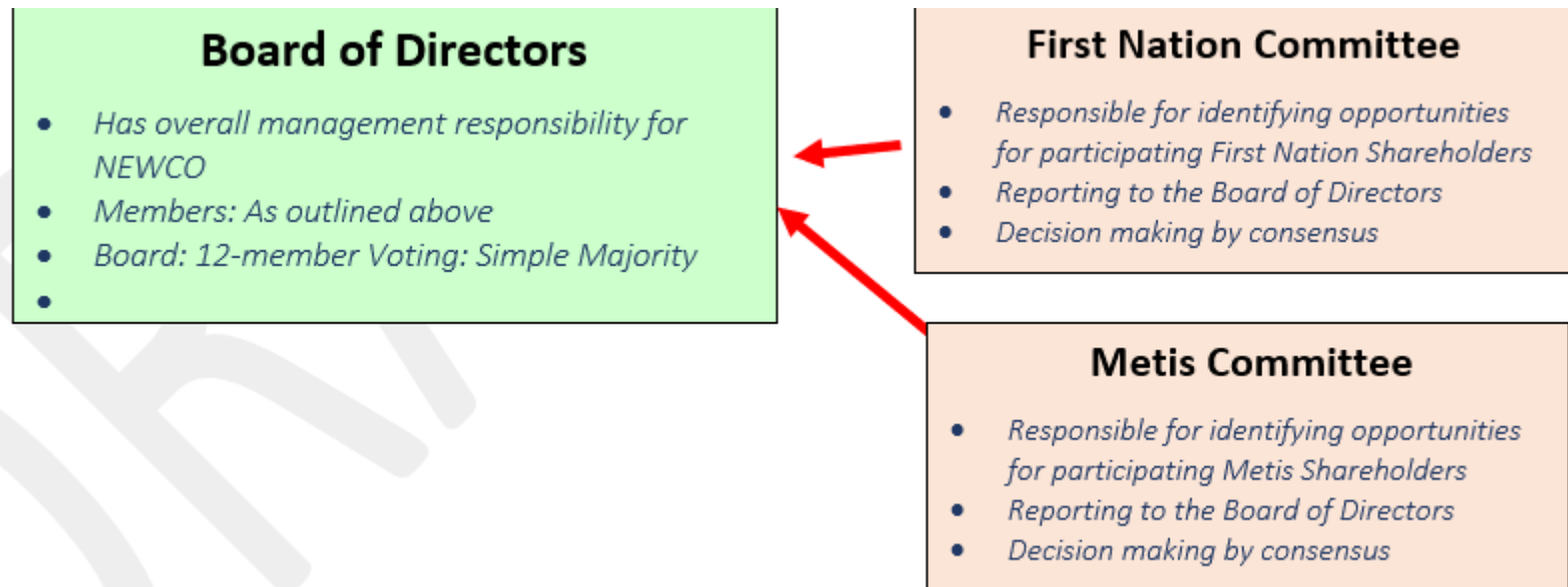


# Committees Reporting to Board

We envision 2 committees reporting directly to Board, and 1 committee reporting to General Manager.



# Committees Reporting to Board



# Management Service Provider

## Key characteristics of Management Service Provider:

- Retain local forest management expertise
- Largely external service providers
- Utilize existing expertise: Rainy Lake Tribal Resource Management Inc.
- As well as tendering for services not competitively available in the area.
- General Manager responsible to review performance of service providers.

# Harvest and Consumption Rights

## Recognized Historical Harvest Rights:

1. Resolute Forest Products: **Crossroute Forest SFL**
2. Rainy Lake Tribal Resource Mgmt. Inc.: **Sapawe Forest 5- yr FRL**
3. Independent Operators on former Flanders and Fort Frances CMU: recognized in **Schedule “F” of RFP SFL** on the Crossroute Forest.

Business to Business Arrangements: As determined by the B2B participants



# Harvest and Consumption Rights

## Consumption Rights:

1. Resolute Forest Products: **Crossroute Forest SFL**
2. Norbord Inc: **OMNR recognized Supply Agreement**
3. Nickel Lake Lumber, Manitou Forest Products and True North Timber: **Supply Agreements**

NEWCO's responsibility is to respect these harvest and consumption rights as long as they are being used.

# NEWCO's Role: Harvest & Consumption Rights:

- NEWCO's responsibility is to respect these harvest and consumption rights as long as they are being used.  
Otherwise:
- NEWCO will need to define language to provide new opportunities for:
  - First Nation and Metis businesses and harvesters
  - Existing independent operators
- NEWCO will need to define language in the Shareholder that provides fair and equitable opportunities to our existing shareholders.

***NEWCO's overall objective is to utilize the full AAC on the forest.***

# Consumption and Harvest Rights

[illegible]

# Current Consumption and Harvest Rights

<b>Consumption Rights</b>	<b>Annual Volume m3</b>	<b>%</b>
Norbord (Barwick)	380,795	25.6%
Nickel Lake Lumber	25,000	1.7%
Resolute FP Canada	970,309	65.3%
Manitou Forest Products	25,000	1.7%
Rentech (True North)	84,000	5.7%
<b>TOTAL</b>	<b>1,485,104</b>	<b>100.0%</b>
<b>Harvest Rights</b>	<b>Annual Volume m3</b>	<b>%</b>
Resolute FP Canada	850,912	52.3%
OPERATOR GROUP: FLANDERS	218,405	13.4%
OPERATOR GROUP: FORT FRANCES	314,217	19.3%
Rainy Lake Tribal	244,130	15.0%
<b>TOTAL</b>	<b>1,627,664</b>	<b>100.0%</b>

# Independent Operators: Flanders

	3 YEAR COMMITMENTS			ANNUAL COMMITMENTS		
	Conifer	HDWD	TOTAL	Conifer	HDWD	TOTAL
<b>OPERATOR GROUP: FLANDERS</b>						
<i>1555388 ONT: Don Brown</i>	17,419	38,379	55,798	5,806	12,793	18,599
<i>Clifford Cunningham</i>	18,290	42,019	60,309	6,097	14,006	20,103
<i>James Hartnell</i>	6,097	15,154	21,251	2,032	5,051	7,084
<i>LCB Logging</i>	17,419	38,379	55,798	5,806	12,793	18,599
<i>Leon Degagne</i>	74,903	165,031	239,934	24,968	55,010	79,978
<i>Melvin Williamson</i>	21,774	47,974	69,748	7,258	15,991	23,249
<i>Murko Logging</i>	17,419	38,379	55,798	5,806	12,793	18,599
<i>Seine River Tourist and Timber</i>	23,516	51,812	75,328	7,839	17,271	25,109
<i>Marvin Strom</i>	6,097	15,154	21,251	2,032	5,051	7,084
	202,934	452,281	655,215	67,645	150,760	218,405

# Independent Operators: Fort Frances

<b>OPERATOR GROUP: FORT FRANCES</b>						
<i>1555388 ONT: Don Brown</i>						3,806
<i>'528600 Ontario Derden FP</i>						68,767
<i>AMC Contractors *</i>						6,205
<i>Steven Advent</i>						3,806
<i>Big Timber Ltd.</i>						42,572
<i>Brad Brown</i>						7,612
<i>B&amp;D Robinson Contracting Ltd.</i>						14,777
<i>Friesen Brothers</i>						7,612
<i>Wesley Friesen</i>						11,419
<i>Carl Galusha</i>						14,777
<i>Darrell Hansen</i>						3,806
<i>Jeffresy Hansen</i>						3,806
<i>Myron Huber</i>						7,612
<i>LaVallee Timber Ltd</i>						27,795
<i>James Lundgren</i>						3,806
<i>Manitou Forest Products</i>						14,617
<i>Naicatchewenin Dev. Corp</i>						19,031
<i>Nickel Lake Lumber</i>						12,442
<i>Croswell Contracting Ltd</i>						15,225
<i>Patrick Steele</i>						13,306
<i>1103458 Ontario : Sharp Group</i>						7,612
<i>Gordon Williams</i>						3,806
						314,217

# Overlapping Licence Agreements

1. Need to define an Overlapping Licence Agreement the needs of both Independent Operators recognized in Schedule F of the Sustainable Forest Licence and NEWCO.
2. Working Group is looking at making this process more efficient and effective.

# Crossroute/Sapawe Forest

## Advantages

1. Economies of Scale: Large AAC
2. Harvest rights seem to be aligned.
3. No significant liabilities from a dormant forest condition
4. Significant synergies with amalgamation.
5. Existing SFL holder, and Forest Industry are willing.
6. Significant First Nation Capacity and expertise
7. Communities wish to be actively involved.
8. Participants are in close proximity to each other.
9. No major Independent Audit issues.

## Challenges

1. Large diverse group of participants.
2. Broad range of capacities between the players.
3. FMP planning and amalgamation requires deadlines to be met.
4. Overlapping Licence Agreements



## Next Steps

1. Working Group to take feedback from this meeting and adapt CBA as required.
2. Submit Conceptual Business Arrangement to Forestry Futures Trust Committee.
3. If CBA approved, Working Group begins to populate a draft Shareholder Agreement based on the principles defined in the CBA.
4. Next Working Group meetings:
  - a) Wed May 23, 2018 Atikokan
  - b) Thurs June 14, 2018, Fort Frances

# Keys to Success

1. Respectful open process.
2. Recognize that you are not negotiating with the Government; No political influence.
3. Are you participating in the process to succeed or fail?
4. The true goal is relationship building: these parties are going to be your partners in a business corporation.
5. Continuity of Working Group participants is critical.
6. We need good capacity building within the Working Group .
7. Meeting frequency: no longer than every 2-3 weeks; it will take 25-30 meetings to complete..
8. Key Lead players in some of the organizations: Not all of you will be represented on the Working Group.
9. OMNR role is to provide technical support as required.
10. Consistent, accurate feedback to Main Group participants and OMNR.