

BAFFIN FISHERIES



Baffin Fisheries Report to NWMB

March 7, 2018

AGENDA

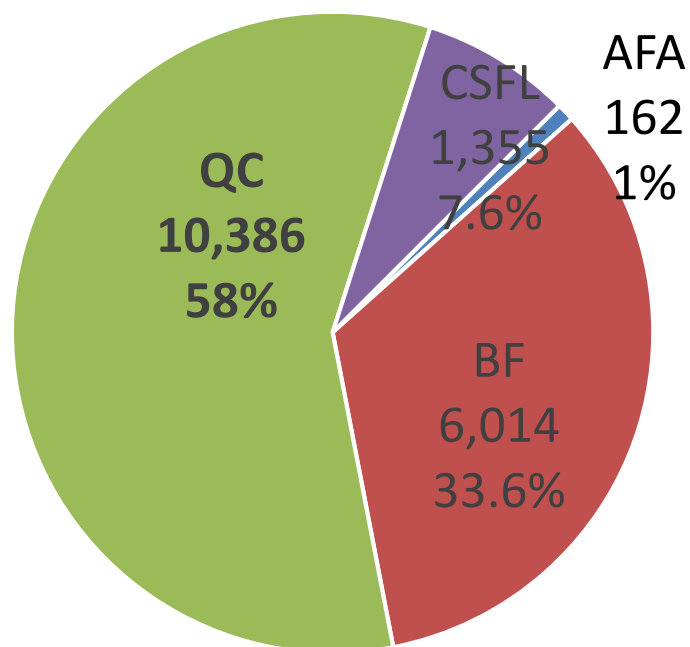
- Nunavut Allocation History
- BF Growth Story
- 2017 Management Issues and Achievements
- Community Development Planning
- Inshore Fishery
- Crewing
- Sales and Marketing
- Allocation Policy Review

NUNAVUT ALLOCATION HISTORY

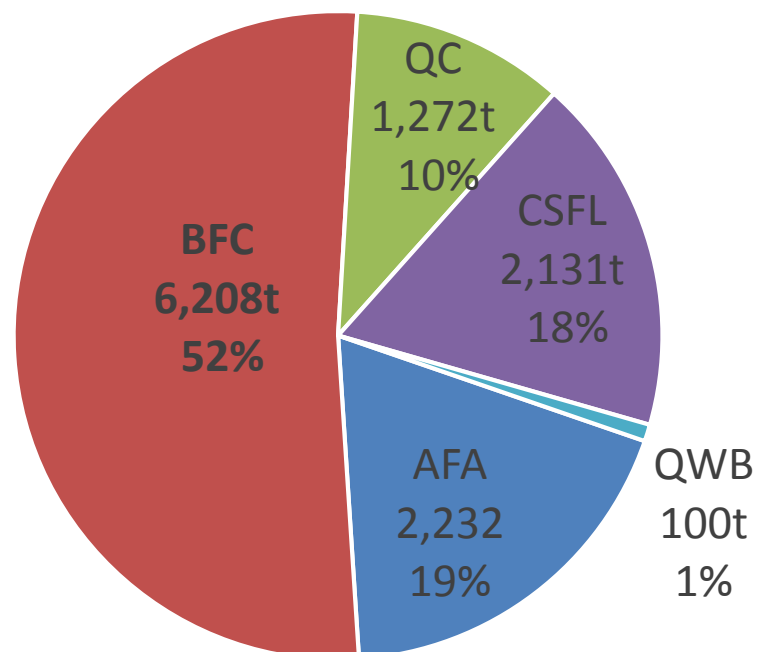
- First Nunavut Fisheries Company, QC, received permanent shrimp allocations (EAs) in 1987.
- BFC incorporated in 2001, uniting OA allocations from six HTOs, three companies, and QC.
- BFC was put together by NU Fisheries Working Group (NWMB, NTI, DFO) to encourage vessel ownership.
- BFC opted to re-invest 70% of revenues in Company; QC and private companies opted out of BFC.

NUNAVUT ALLOCATIONS 2017

Shrimp



Turbot



A large red and white icebreaker ship is sailing on the ocean next to a massive, jagged iceberg. The ship is red with white upper sections and has the name "HELVIK" visible on its side. The iceberg is a large, white, jagged mass of ice. The sky is blue with scattered white clouds. The water is calm, reflecting the ship and the iceberg.

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BF GROWTH STORY, 2

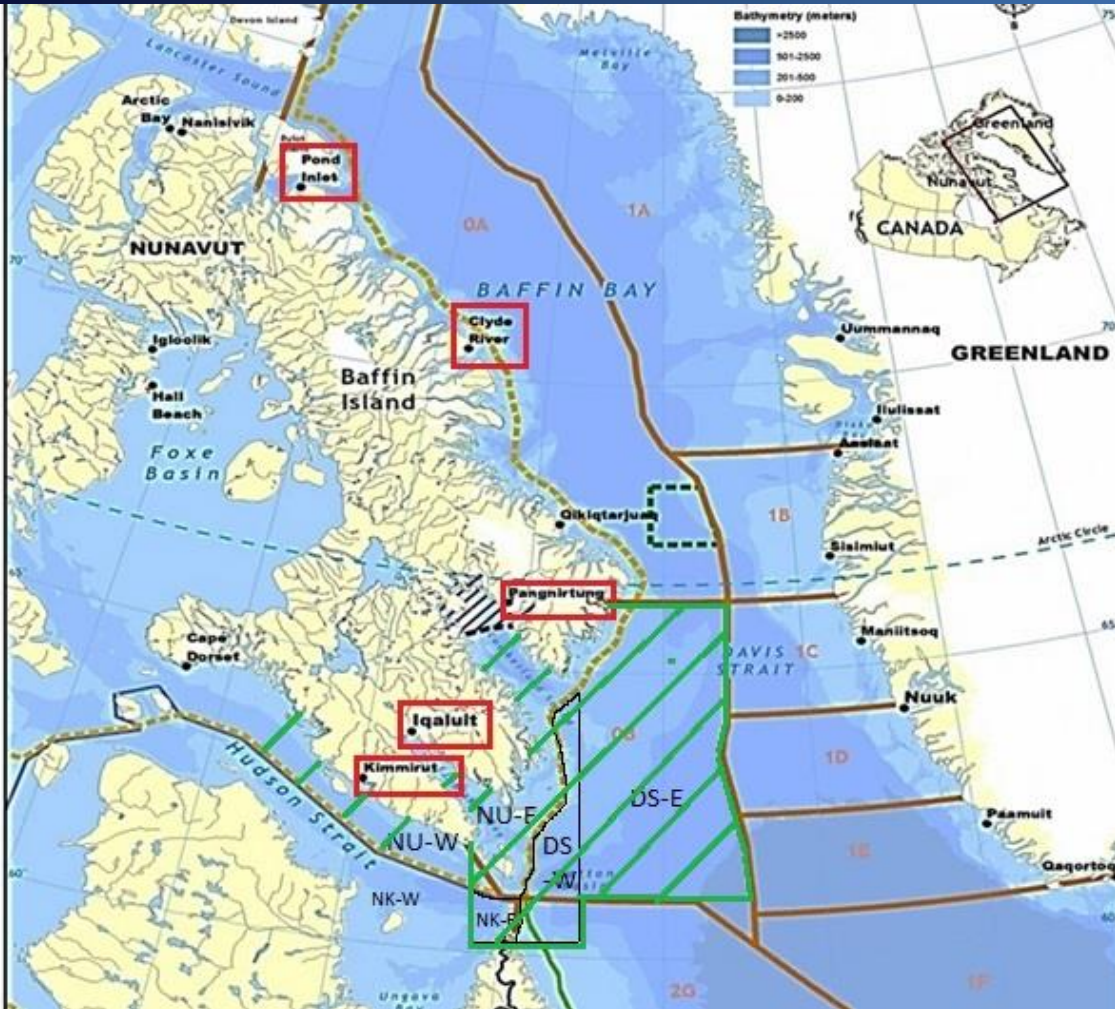
- Accelerated Community Development in 2016
- Took Control of Sales and Marketing in 2017
- Succession planning and transfer of management jobs to Nunavut is underway
- \$10 M reinvestment plan for 2018-2020



BF ECONOMIC BENEFITS

- Training, recruitment, employment of Inuit; infrastructure development and profit distribution
- Increased Nunavummiut employment opportunities at all levels as company assets and revenues increase
- Re-investment of profits into community-based, sustainable fisheries activities
- Economic self-sufficiency for HTOs.

BF HTOs & FISHING AREAS



Through the NWMB,
Baffin Fisheries has
shrimp and turbot
quotas in:

- Area 0A
- Area OB
- NU-E&W
- DS-E&W
- SFA-1

MANAGEMENT ISSUES 2017

- Despite successful acquisition and community investment, Board grew concerned over increased southern employment and delay in delivery of FS
- Board held emergency meeting Sept. 21, suspending senior management and launching forensic audit
- Board discovered \$1.4 M in suspected misappropriated funds; called 2nd emergency meeting in Oct., removed senior management, launched legal action to recover funds
- Board met with lenders, suppliers, auditors to ensure security of assets and strength of Company
- BMO Bankers: *“We see this unfortunate incident as Corporate Governance working, look forward to strong relationship with Board.”*

NEW MANAGEMENT ACHIEVEMENTS

- New independent Audit Committee with total oversight
- More than 50% of management and administration wages and expenses now in Nunavut
- All crewing managed internally, three dedicated staff in Nunavut
- All Sales and Marketing function now internal, bringing an additional \$1.8 M in annual revenue after 2018
- Completion of Pond Inlet office building: carried out by 100% Inuit workers (crew of 12); architect 100% NU Company (Iqaluit)

NEW MANAGEMENT COMMITMENTS

- Plan underway to move 5 more senior positions to Nunavut in 2018-2019
- Creation of new subsidiaries to expand sales/marketing function and community building development
- Commitment to invest minimum \$15 million in community development over five years.
- New Vessel commitment being reviewed by Executive and Board

RE-INVESTMENT IN COMMUNITIES

| 2016 | New office building constructed for Pangnirtung HTO 2016 | Pangnirtung | \$1,400,000 |
|------|---|-------------|--------------------|
| 2017 | New office building constructed for Pond Inlet HTO 2017 | Pond Inlet | \$1,300,000 |
| 2017 | Processing building/Community freezer supported by BF in Pond Inlet | Pond Inlet | \$715,000* |
| 2017 | HTA loan relief to Amarok | Iqaluit | \$310,000 |
| 2018 | Maintenance Facility & Office | Clyde River | \$1,100,000 |
| 2019 | Community Building | Kimmirut | \$600,000 |
| 2020 | Other Communities | NU | \$600,000 |
| | Total | | \$6,035,000 |

**Community Freezer project funded by GN, supported by BF*

INVESTMENT SUMMARY AND FORECAST

| | | | Forecast | | | |
|--------------------------|---------|---------|----------|---------|---------|----------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
| Community Infrastructure | \$1,400 | \$1,710 | \$1,000 | \$600 | \$1,100 | \$5,810 |
| Inshore Fishery | \$50 | \$110 | \$250 | \$250 | \$250 | \$910 |
| Royalties | \$1,450 | \$1,400 | \$1,500 | \$1,750 | \$2,000 | \$8,100 |
| Total | \$2,900 | \$3,140 | \$2,750 | \$2,600 | \$2,750 | \$14,810 |

Amounts in \$000

INSHORE FISHERY DEVELOPMENT

- Investment in PFL in 2017 to increase ownership to 32%
- Successful development of Community Freezer and Small Processing Facility in Pond Inlet
- Providing support and seeking similar Community Freezer projects in other HTA communities
- Hiring full time Inshore Fisheries Coordinator job in Nunavut in 2018
- In discussions with GN, Cannor, HTA, and Ocean Tracking Network to leverage BF investment and secure funding to develop commercial inshore fishery in Pond Inlet in 2018.

INSHORE FISHERY DEVELOPMENT

| INVESTMENT | DETAILS |
|---------------------|---|
| Knowledge | Pond Inlet learnings and successes to be applied to other communities in Nunavut |
| Training | Baffin Fisheries to work with NFMTC to support additional training for handling, processing and storing of turbot, long line tying and baiting preparation. |
| CFIA | BF overseeing training and orientation required to establish CFIA-approved processing at small-scale plants |
| Sales and Marketing | Baffin Fisheries to full network of buyers to sell inshore fishery as premium brand, hand-caught by Inuit fishermen. |

INSHORE FISHERY DEVELOPMENT PLAN

| INVESTMENT | DETAILS |
|----------------------|--|
| Logistics | Baffin Fisheries conducting market research to determine viability of Sealift/NEAS back-haul strategy to ship frozen turbot to markets |
| Science and Research | Working with OTC Arctic to support sustainability, identify best fishing grounds, avoid bycatch issues. |
| Allocation transfer | Baffin Fisheries willing to transfer offshore allocation to inshore communities to support economic development. |
| Collector Vessels | Baffin Fisheries also reviewing concept of a collector vessel to import HTO hunting and fishing materials to communities; export turbot to markets |

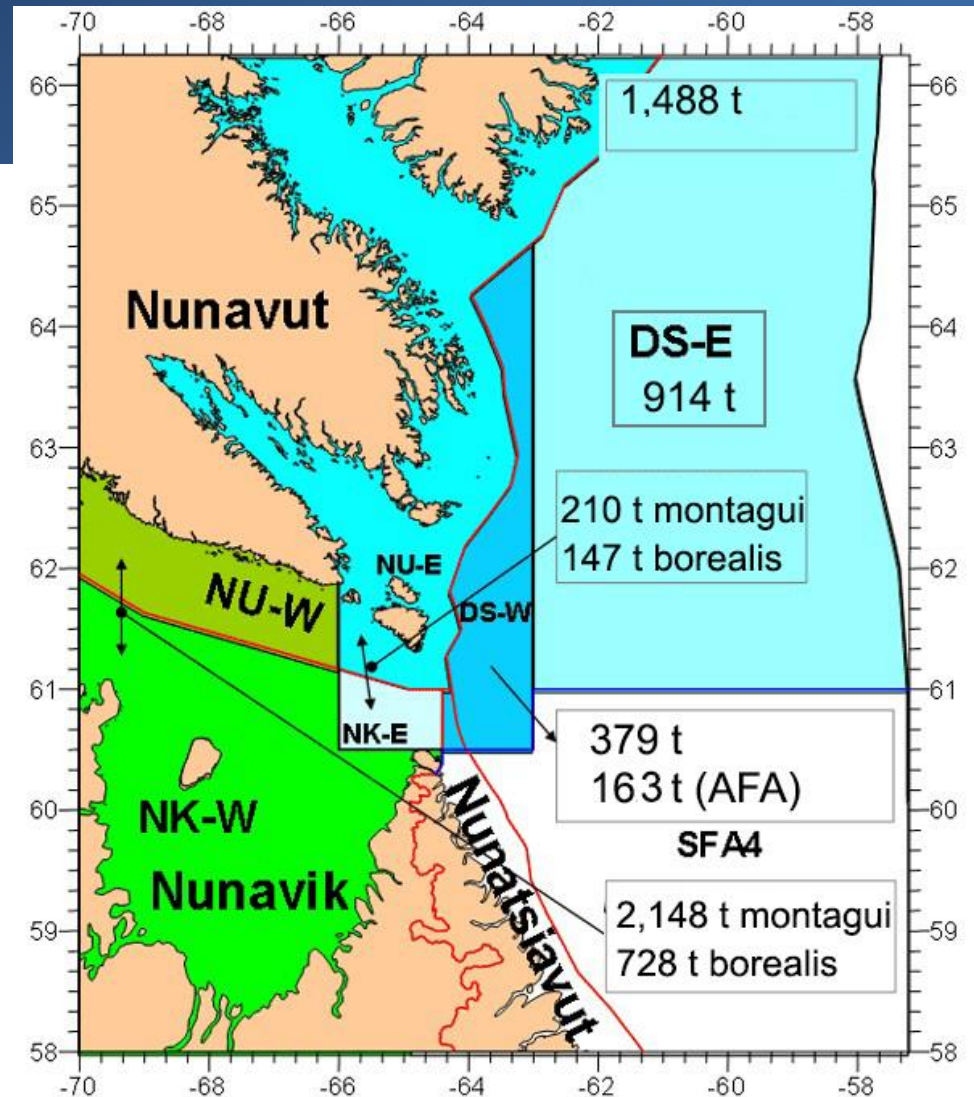
COMMERCIAL FISHING PLAN GOALS

Goals:

1. Harvest all Allocation with BF-owned vessels
2. Maximize Inuit employment
3. Increase revenue

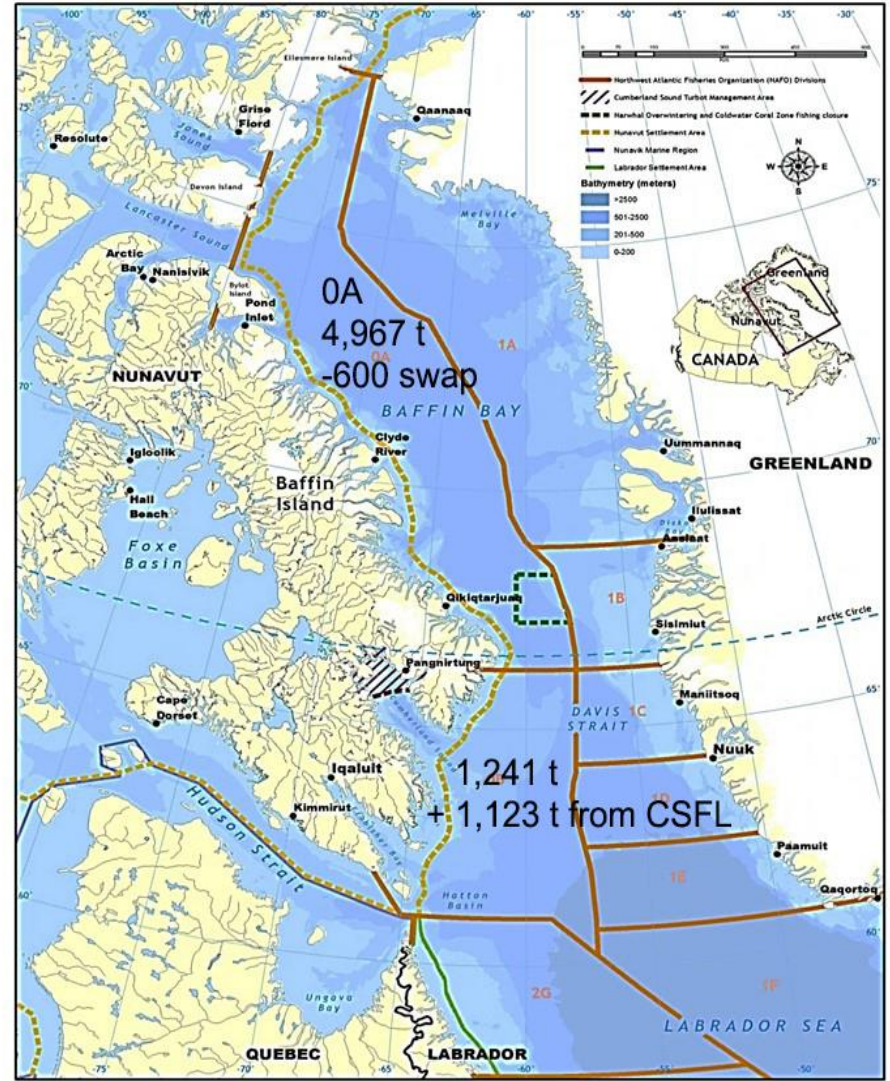
BFC SHRIMP 2017

- Almost 100% harvested; exception: low-value Ungava Montague
- Supporting AFA in DS-W for 163 t
- Work with Makavik to help harvest 150 t
- SFA 1 not currently economical, but exploration planned



BFC TURBOT 2017

- Harvested 100% of allocation
- 600 *t* of 0A turbot to LFUSC for 1350 *t* shrimp
- Supporting CSFL to ensure harvest by Inuit-owned Company



EMPLOYMENT AND CREWING

Goals:

1. Increase the number of Nunavummiut employed onshore and offshore
2. Transfer knowledge, skills and management to Nunavutmmiut
3. Improve the Baffin Fisheries work experience

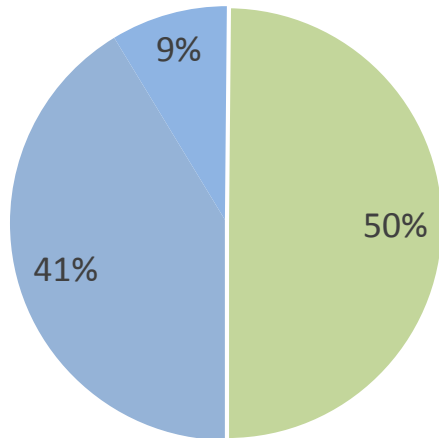
MANAGEMENT AND ADMINISTRATION SALARIES

Pre-Board
Action



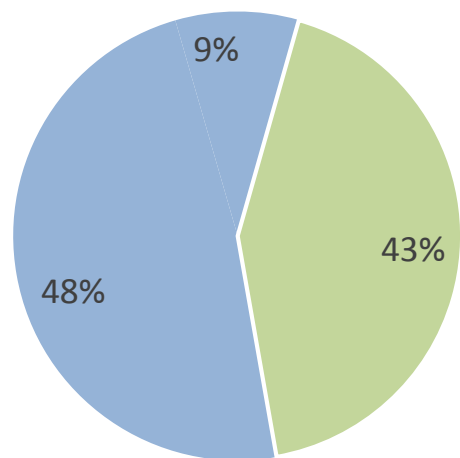
Nunavut vs Newfoundland Wages*

Current



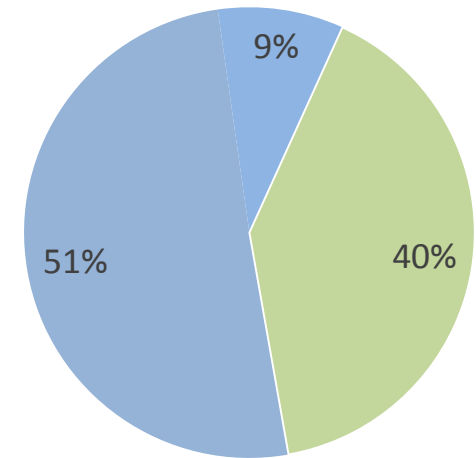
Excludes \$286,000 in Inuit wages at Pond Inlet Building

2018



Creation of two new positions in Nunavut

2019



Two additional management positions to Nunavut

■ Nunavut/Inuit ■ Board ■ Newfoundland

*Includes all consultants except audit and legal

PRIORITIES

Safety

Recruitment

Retention

Compensation

Promotion

- Safety of employees comes first. Always.
- New programs developed:
 - Health and Safety
 - Drugs and Alcohol
 - Fit for Work
- New orientation programs introduced
- Goal is zero accidents or injuries in the workplace.

BF Safety Performance

| | Lost Time Incidence Rate | Record- able Incidence Rate | Soft Tissue Incidence Rate |
|-----------------------|--------------------------------|--------------------------------------|-------------------------------------|
| Baffin Fisheries | 1.70 | 1.70 | 1.70 |
| NL Fish Harvesting | 2.10 | 3.20 | 1.10 |
| NL Fish Processing | 3.30 | 4.70 | 1.90 |
| NL Average | 1.50 | 2.20 | 1.00 |

RECRUITMENT

Hire Recruitment Officers in Nunavut communities



Increase awareness through outreach, radio broadcasts etc.



Coordinate with NFMTC to identify and recruit new graduates



Maximize the number of greenhorns to increase roster of available Inuit employees



Improve retention through consultation and worker-approved scheduling



RECRUITING NEW EMPLOYEES

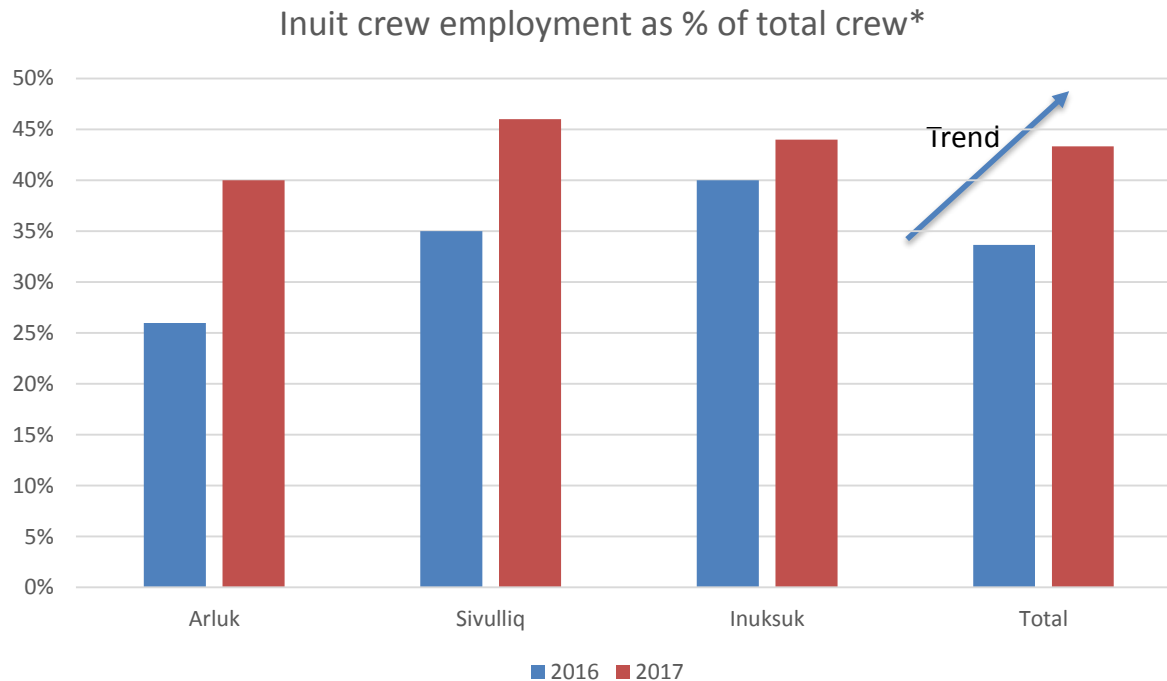
2016

- 5 new recruits ('greenhorns') made trips, 2 remained in regular rotation

2017

- 15 made trips, 12 on regular rotation to date
- 3 more scheduled to join this year

IMPROVEMENTS IN 2017



*Includes positions for which Inuit Beneficiaries are currently trained and certified. Baffin Fisheries must continue to work to ensure Inuit Beneficiaries are trained for more senior positions.

2017 EMPLOYMENT HIGHLIGHTS

- Inuit employment increased on all vessels
- New recruits doubled in 2017
- Sivulliq Trip 5 had 73% Inuit crew (11 out of 15 eligible positions)
- New target is 75% Inuit crew up from traditional 50%
- Retention high in 2017

SALES AND MARKETING

In 2017, Baffin Fisheries brought sales and marketing in house to:

1. Eliminate \$1.8 M in third-party commissions
2. Market unique, superior quality Baffin products
3. Gain knowledge and expertise in a new sector; transfer knowledge and expertise to North
4. Create opportunity to become third-party marketing company for other harvesters.

FIRST FULL YEAR

- Successful year in sales growth
- BF managed 100% of sales for all seafood harvested during the year
- Managed sales for seafood harvested under third party licence transfer agreements
- Reduced cold storage fees

FREIGHT ON BOARD

- All seafood was sold FOB (Freight On Board) for ports in Newfoundland or Greenland
- Buyers take possession and pay for fish as soon as it lands
- Buyer responsible for ocean freight, foreign port offloading, cold storage at destination, insurance, currency risks etc.
- This allows early payment for crew.

NEW SHRIMP LINE

- For 2017, BFC added a Japanese Shrimp production line to the Sivulliq processing factory
- Production of sushi grade shrimp possible
- Increases value per kilogram for certain shrimp products
- As a result, BF added two of the largest buyers in Japan to its list of customers.

SALES TEAM

- Members of the sales and market team met with buyers internationally
- Established program to generate daily Quality Assurance Reports
- Met with third-party production facilities to explore opportunities to add value
- Positive first year

BAFFIN FISHERIES ALLOCATION OBJECTIVES

1. Work together with all four Nunavut Fisheries enterprises to increase *total* quota
2. Ensure Inuit have strong voice in wildlife management
3. Create climate of business certainty.

BAFFIN FISHERIES ALLOCATION RECOMMENDATIONS

1. Simplify process
2. Establish objective benchmarks for maintaining quota
3. Minimum five (5) year allocation period
4. Move to secure allocations
5. Divide future TAC equitably



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