



Forest Certification REPORT



Conifex Timber Inc.—2016 SFI Re-certification Audit

From June 14-July 8, 2016 an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI re-certification audit of Conifex Timber Inc.'s (Conifex's) Fort St. James and Mackenzie, B.C. woodlands operations and related fibre procurement activities against the requirements of the Sustainable Forestry Initiative® (SFI) 2015-2019 forest management and fibre sourcing standards. In order to ensure an efficient audit process, Canadian Boreal Forest Agreement (CBFA) and PEFC chain of custody (CoC) audits were completed at the same time. This Certification Summary Report provides an overview of the process and KPMG PRI's findings.

The Conifex Fort St. James and Mackenzie Woodlands Operations

Conifex Timber Inc. is a publicly traded Company on the TSX Venture Exchange with offices in Vancouver, Prince George, Fort St. James and Mackenzie, British Columbia.

The Conifex Fort St. James woodlands operation is located in the Prince George Timber Supply Area (TSA), and includes the Company's operations under Forest Licence A77955 (which covers approximately 187,500 hectares of public forest land and has an AAC of 440,000 m³/year), as well as additional wood procurement activities required to supply the Fort St. James, B.C. sawmill.

The Conifex Mackenzie woodlands operation is located in the Mackenzie TSA, and includes the Company's operations under Forest Licences A15385 and A93631 (which cover approximately 787,500 hectares of public forest land and have a combined AAC of 782,500 m³/year), as well as additional wood procurement activities required to supply the Mackenzie, B.C. sawmill and biomass power plant.

The 2016 audit found that Company continues to conform to the AACs applicable to these operations.

Both woodlands operations are covered by government-approved forest stewardship plans that address both timber and non-timber values. In addition, various higher level plans developed by government (e.g., Land and Resource Management Plans, etc.) also provide direction to forest management within the areas managed by the Company.

The Company's woodlands operations fall within 2 ecoregions as defined by the World Wildlife Fund (WWF), including the: (1) Central British Columbia Mountain Forests, and (2) Fraser Plateau and Basin Complex. The forests types are predominantly coniferous with the main commercial tree species being lodgepole pine, spruce (white, black, Engelman and hybrids), sub-alpine fir and trembling aspen.

The forest management approach employed by the Company is based on even-aged management, ground-based harvesting systems, clearcut harvesting with the retention of reserves of standing trees either within or adjacent to harvest areas, replanting of harvest areas within a few years with a mix of ecologically suited tree species and control of competing vegetation through the use of government-approved chemical herbicides and/or mechanical means.



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The Conifex Fort St. James and Mackenzie Manufacturing Facilities

Conifex currently operates 2 sawmills, 1 in Fort St. James and another in Mackenzie, British Columbia. The Company has also recently commissioned a 36 MW biomass power plant that is located near the Mackenzie sawmill site.

While the majority of fiber is sourced directly from the Company’s own woodlands, approximately one-third is purchased from third parties, although this proportion varies from year to year. The large majority of wood purchases are from other organizations (forest companies and B.C. Timber Sales) who hold their own SFM certifications, with a small percentage coming from uncertified private land and local First Nations. Conifex does not have a purchase stumpage program.

Conifex participates in the Western Canada SFI Implementation Committee (WCSIC) Purchase Wood Monitoring Program by completing risk assessments for all wood purchases and purchase wood inspections as necessary. The results are then collated by WCSIC (of which Conifex is a member) in order to identify trends in performance and opportunities for improvement.

Audit Scope

The audit was conducted against the requirements of the SFI 2015-2019 forest management and fibre sourcing standards, and incorporated a full scope assessment against the SFI program objectives for:

- Forest management planning;
- Forest health and productivity;
- Protection and maintenance of water resources;
- Conservation of biological diversity;
- Management of visual quality and recreation benefits;
- Protection of special sites;
- Efficient use of fibre resources;
- Recognize and respect Indigenous Peoples’ rights;
- Biodiversity in fiber sourcing;
- Adherence to best management practices;
- Use of qualified resource professionals and qualified logging professionals;
- Legal and regulatory compliance;
- Forestry research, science and technology;
- Training and education;
- Community involvement and landowner outreach;
- Public land management responsibilities;
- Communications and public reporting, and;
- Management review and continual improvement.

The Audit

- **Audit Team** – The audit was conducted by Dave Bebb, RPF, EP(EMSLA), and Mike Alexander, RPF, EP(EMSLA). Dave is an employee of KPMG PRI, and has conducted numerous forest management audits under a variety of standards including SFI, ISO 14001, CSA Z809 and FSC. Mike is a forestry consultant with experience in conducting audits against the ISO 14001, CSA Z809 and SFI standards.

Conifex Inc. 2016 SFI Re-certification Audit Findings	
New major non-conformities	0
New minor non-conformities	0
New opportunities for improvement (OFIs)	2
Open non-conformities from previous audits	1

Types of audit findings

Major non-conformities:

Are pervasive or critical to the achievement of the SFM Objectives.

Minor non-conformities:

Are isolated incidents that are non-critical to the achievement of SFM Objectives.

All non-conformities require the development of a corrective action plan within 30 days of the audit. Corrective action plans to address major non-conformities must be fully implemented by the operation within 3 months or certification cannot be achieved / maintained. Corrective action plans to address minor non-conformities must be fully implemented within 12 months.

Opportunities for Improvement:

Are not non-conformities but are comments on specific areas of the SFM System where improvements can be made.

- 2016 SFI Re-certification Audit** – The audit involved an on-site assessment of the Company’s sustainable forest management (SFM) system at the Fort St. James and Mackenzie woodlands operations, and included visits to a variety of field sites (18 roads, 15 cutblocks, 5 silviculture sites and 5 wood procurement sites) to evaluate conformance with the requirements of the SFI 2015-2019 forest management and fibre sourcing standards. The Company’s head office in Prince George was also visited for staff interviews and a review of SFI-related documents. This sample size is consistent with IAF requirements regarding audit sampling for multi-site certifications with 2 sites. The SFI portion of the 2016 audit took a total of 13 auditor days to complete, 8 days of which were spent on-site. The balance of audit time was spent preparing the audit plan, completing an off-site review of selected Company documents and records and completing various audit checklists and preparing the main and public summary audit reports.
- Conifex’s SFI Program Representative** – Kalin Uhrich (Vice-President—Fibre), served as the Company’s SFI program representative during the audit.

Use of Substitute Indicators

The audit was based on the applicable indicators included in the SFI 2015-2019 forest management and fibre sourcing standards. No substitute indicators were used during the audit.

Audit Objectives

The objective(s) of the audit were to evaluate the SFM system at the Company’s woodlands operations to:

- Determine its conformance with the requirements of the SFI 2015-2019 forest management and fibre sourcing standards;
- Evaluate the ability of the SFM system to ensure that Conifex meets applicable regulatory requirements;
- Evaluate the effectiveness of the SFM system in ensuring that Conifex meets its specified SFM objectives, and;
- Where applicable, identify opportunities for improvement.

Evidence of Conformity with the SFI 2015-2019 Forest Management and Fibre Sourcing Standards

Primary sources of evidence assessed to determine conformity with the SFI 2015-2019 forest management and fibre sourcing standards are presented in the following tables.



Conifex Timber Inc. is a publicly traded Company on the TSX Venture Exchange with offices in Vancouver, Prince George, Fort St. James and Mackenzie, British Columbia. It’s Fort St. James and Mackenzie sawmills produce structural grade SPF lumber for the North American and Asian markets.

Findings: 2016 Conifex Timber Inc. SFI Re-certification Audit Page 4

SFI Forest Management Objective #	Key Evidence of Conformity
1. Forest Management Planning	SFI Table of Indicators, FSPs, TSR AAC Rationales, GIS, review of site plans, staff and contractor interviews, inspection of a sample of field sites.
2. Forest Health and Productivity	SFI Table of Indicators, FSPs, EMS operational controls, site plans, staff and contractor interviews, review of silviculture records for selected operations, inspection of a sample of field sites.
3. Protection and Maintenance of Water Resources	SFI Table of Indicators, FSPs, EMS operational controls, review of site plans & harvest plans, inspection of a sample of field sites with riparian features.
4. Conservation of Biological Diversity	SFI Table of Indicators, FSPs, interviews with planning staff, EMS operational controls, review of wildlife and biodiversity information and strategies contained in divisional GIS, site plans, inspection of a sample of field sites with wildlife habitat features. .
5. Management of Visual Quality and Recreational Benefits	SFI Table of Indicators, FSPs, review of site plans and associated VIA results, staff and contractor interviews, inspection of a sample of field sites.
6. Protection of Special Sites	SFI Table of Indicators, FSPs, review of site plans and associated AIA results, review of selected stakeholder and First Nations consultation records, inspection of a sample of field sites.
7. Efficient Use of Forest Resources	SFI Table of Indicators, divisional waste survey results, final block inspections, inspection of a sample of recently completed harvesting areas.
8. Recognize and Respect Indigenous Peoples Rights	Company policy on Indigenous Peoples' rights, records of consultation with local Indigenous Peoples, pre-audit questionnaire responses, interviews with Company staff and representatives of local Indigenous Peoples.
9. Legal and Regulatory Compliance	SFI Table of Indicators, corporate environmental, social and health & safety policies, management review records, Incident Tracking System (ITS), divisional non-compliance records, inspection of a sample of field sites.



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SFI Forest Management Objective #	Key Evidence of Conformity
10. Forestry Research, Science & Technology	SFI Table of Indicators, management review records, divisional research records, staff interviews.
11. Training and Education	SFI Table of Indicators, EMS and SFI awareness training materials and records, interviews with a sample of staff and contractor employees.
12. Community Involvement and Landowner Outreach	SFI Table of Indicators and related monitoring results, WCSIC meeting minutes, correspondence related to community and school outreach programs, staff interviews.
13. Public Land Management Responsibilities	SFI Table of Indicators, FSPs and related agency and stakeholder referral correspondence, review of site plans, review of stakeholder consultation records, inspection of a sample of field sites.
14. Communications and Public Reporting	Certification summary report.
15. Management Review and Continual Improvement	SFI Table of Indicators, management review records, internal audit reports and associated action plans, interviews with a sample of corporate and divisional staff.



The audit found that the Mackenzie operation had made good progress over the past year in encouraging its logging contractors to retain biodiversity retention patches (scattered clumps of non-merchantable trees, stubs and coarse woody debris (CWD) accumulations) on harvested blocks.

SFI Fibre Sourcing Objective #	Key Evidence of Conformity
1. Biodiversity in Fibre Sourcing	Program to promote biodiversity in fibre sourcing, records of involvement in local or regional conservation efforts, interviews with procurement staff.
2. Adherence to Best Management Practices	Fibre sourcing policy and records of its distribution to wood producers, written fibre sourcing agreements, records of implementation of the BMP monitoring system, inspection of a sample of procurement sites.
3. Use of Qualified Resource and Logging Professionals Use of Qualified Resource and Logging Professionals	List of Qualified Resource and Logging Professionals, records of proportion of fibre delivered by QLPs, interviews with procurement staff.
4. Legal and Regulatory Compliance	SFI Table of Indicators, corporate environmental, social and health & safety policies, management review records, Incident Tracking System (ITS), divisional non-compliance records, inspection of a sample of procurement field sites.

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SFI Fibre Sourcing Objective #	Key Evidence of Conformity
5. Forestry Research, Science & Technology	SFI Table of Indicators, management review records, divisional research records, staff interviews.
6. Training and education	SFI Table of Indicators, EMS and SFI awareness training materials and records, interviews with a sample of staff and contractor employees.
7. Community Involvement and Landowner Outreach	SFI Table of Indicators and related monitoring results, WCSIC meeting minutes, correspondence related to community and school outreach programs, staff interviews.
8. Public Land Management Responsibilities	SFI Table of Indicators, FSPs and related agency and stakeholder referral correspondence, review of site plans, review of selected stakeholder consultation records, inspection of a sample of field sites, procurement staff interviews.
9. Communications and Public Reporting	Certification summary report.
10. Management Review and Continual Improvement	SFI Table of Indicators, management review records, internal audit reports and associated action plans, interviews with a sample of corporate and divisional staff.
11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas	NA. Conifex does not procure wood from outside of North America.
12. Avoidance of Controversial Sources including Illegal Logging	NA. Conifex does not procure wood from outside of North America.
13. Avoidance of Controversial Sources including Sources without Effective Social Laws	NA. Conifex does not procure wood from outside of North America.



The Company continues to move its harvesting operations further up Williston Lake. This will help take some of the harvesting pressure off of the southern portion of the TSA while working towards meeting the geographic partition included in the most recent Mackenzie TSA AAC decision.

Good Practices

A number of good practices were identified during the course of the audit, including:

- SFI Forest Management and Fibre Sourcing Standards: The Conifex SFI 2015-2019 Table of Indicators does a good job of documenting how the Company addresses the requirements of the SFI 2015-2019 forest management and fibre sourcing standards.
- SFI Forest Management Objective 1 (Forest Management Planning): The Company continues to move its harvesting operations further up Williston Lake. This will help take some of the harvesting pressure off of the southern portion of the TSA while working towards meeting the geographic partition included in the most recent Mackenzie TSA AAC decision. (Mackenzie)
- SFI Forest Management Objective 2 (Forest Health and Productivity): The Company's Fort St. James Harvesting Superintendent sends out "head's up" emails to all logging contractors and on-site supervisors to notify them of any weather-related concerns that require extra monitoring or operational caution to reduce the probability of an environmental incident (e.g., possible soil rutting due to heavy rains). (Fort St. James)
- SFI Objective 4 (Conservation of Biological Diversity): The audit found that the Mackenzie operation had made good progress over the past year in encouraging its logging contractors to retain biodiversity retention patches (scattered clumps of non-merchantable trees, stubs and CWD accumulations) on harvested blocks. (Mackenzie)
- SFI Objective 4 (Conservation of Biological Diversity): Prior to full implementation of the recent industry-developed tool for managing migratory bird habitat, the Company took proactive steps to develop a migratory birds handbook and subsequently trained its contractors, layout crews and logging crews in these procedures to enable the field identification and reporting of sightings of migratory birds and their nests. (Corporate)

Follow-up on Findings from Previous Audits

At the time of this assessment there were a total of 8 open minor non-conformities from previous external SFI audits. The audit team reviewed the implementation of the action plans developed by Conifex to address these issues, and found that they had been effectively implemented for 7 out of the 8 minor non-conformities. As a result, all but one of the previously identified minor non-conformities have now been closed. The one remaining non-conformity relates to weaknesses in the road and bridge inspection and maintenance program that were identified at the Mackenzie operation (i.e., lack of an accurate inventory of the roads and structures that the Company has responsibility for, including their current status and when they were last inspected). The audit found that the operation has made good progress towards addressing the issues that gave rise to this finding over the past year. However, a few elements of the action plan that was developed by the Company to address this finding remain incomplete. As a result, this non-conformity is being left open for an additional year. The Company's continued progress towards addressing this issue will be assessed during the 2017 audit, at which time consideration will be given to closing this finding.



Although more work remains to be done, the audit found that the Company's Mackenzie operation had made good progress towards addressing the weaknesses in the operation's road and bridge maintenance and inspection program that were identified during the 2015 audit.

Areas of Nonconformance

The 2016 Conifex audit did not identify any new non-conformities in relation to the requirements of the SFI 2015-2019 forest management or fibre sourcing standards.

Opportunities for Improvement

The following 2 opportunities for improvement were identified during the 2016 Conifex audit in relation to the requirements of the SFI 2015-2019 forest management and fibre sourcing standards:

- SFI 2015-2019 Forest Management Performance Measure 9.1 requires the organization to develop and implement a system to achieve compliance with applicable federal, provincial, state and local laws and regulations. Conifex addresses this requirement through its EMS which includes a variety of procedures that are designed to help ensure compliance with applicable regulatory requirements. The audit found that the Company's EMS procedures had been implemented as required in the large majority of instances. However, a few isolated weaknesses in the implementation of the Company's EMS procedures were noted, as follows:
 - A skidder working on a active cutblock did not have the required emergency response equipment. (Mackenzie)
 - A 590 litre truck mounted fuel tank was found to not be adequately secured to the vehicle to prevent the tank from being ejected in the event of a roll-over. (Mackenzie)
 - 2 pieces of equipment (working on different cutblocks) were found to be missing the required EMS booklet. (Mackenzie)
 - A buncher working on an active cutblock did not have a copy of the required paper copy of the block map, although he did have a digital version of the map loaded in his on-board GPS. (Fort St. James)
- SFI 2015-2019 Forest Management Performance Measure 11.1 requires the organization to ensure that staff and contractors receive appropriate training to ensure that they are competent to fulfill their responsibilities under the standard. Review of recent training records and interviews with a sample of staff and contractors found that this requirement had been met in the majority of instances. However, an interview with the skidder operator working on an active harvest block found that he had not received adequate EMS awareness training from either Conifex or the logging contractor. Although he had a copy of the current Conifex EMS booklet in his machine, he had not received any instruction regarding the EMS procedures that apply to his job, nor was he aware of the contents of the EMS booklet. (Mackenzie)

Corrective Action Plans

Corrective action plans designed to address the root cause(s) of the findings identified during the audit have been developed by Conifex and reviewed and approved by KPMG PRI. The next surveillance audit will include a follow-up assessment of these issues to confirm that the corrective action plans developed to address them have been implemented as required.



The audit noted a number of examples on active and recently completed harvest blocks where small wetlands such as the one depicted above had been adequately protected during field operations.

Audit Conclusions

The audit found that Conifex's SFM system:

- Is in full compliance with the SFI requirements included in the scope of the audit, except where noted other wise in this report;
- Continues to be effectively implemented, and;
- Is sufficient to systematically meet the commitments included in the Company's environmental and SFM policies, provided that the system continues to be implemented and maintained as required.

As a result, a decision has been reached to certify Conifex Timber Inc. to the SFI 2015-2019 forest management and fibre sourcing standards.

Focus Areas for the Next Audit Visit

The following focus areas have been identified as focus areas for the next audit visit:

- Action plan implementation and effectiveness for all open non-conformities and opportunities for improvement.
- Progress towards the completion of a new TSR (Timber Supply Review) for the Prince George TSA.
- Continued progress by the Mackenzie operation towards the implementation of its road and bridge inventory and inspection program.
- Progress towards full implementation of the industry-developed tool for managing migratory bird habitat.
- The Company's ongoing efforts to address the incipient spruce bark beetle epidemic within its operating areas.
- The Mackenzie operation's ongoing efforts to consult with local stakeholders and other tenure holders and address their forest management concerns to the extent possible.
- Contractor EMS awareness training.
- Coordination of planning and operations under Forest Licence A93631 between Conifex and Dunkley Lumber Ltd.



Review of the Company's reforestation records and inspection of a sample of previously harvested sites did not identify any concerns in relation to the achievement of reforestation requirements. 100% of blocks harvested by the Company are planted, the large majority of which within 2 years of completion of harvest.

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