



Forest Certification REPORT



Millar Western Forest Products Ltd. – 2015 Surveillance Audit

From September 28 to October 2, 2015, an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI surveillance audit of Millar Western Forest Products Ltd. (Millar Western) Whitecourt Woodlands operations against the requirements of the 2015-2019 edition of the Sustainable Forestry Initiative® (SFI) forest management and fibre sourcing standard, in conjunction with a surveillance audit against the requirements of the ISO 14001:2004 standard. This Summary Report provides an overview of the process and KPMG's findings.

Description of Millar Western Forest Products Ltd. Woodlands Operations

Millar Western woodlands operations encompass an approximate area of 960,000 hectares of boreal forest located in the company's Forest Management Agreement (FMA) 9700034 as well as in conifer and deciduous quota areas on other FMAs in the region. These are managed through the company woodlands offices in Whitecourt and Boyle, Alberta, with Whitecourt serving as the central office

The woodlands operations that are included within the scope of the Company's SFI certification are covered by a forest management system that addresses the Objectives of the SFI forest management standard and includes a variety of targets in relation to them. The woodlands operations are covered by government-approved harvest plans that address both timber and non-timber values. These are developed to be consistent with higher level plans such as the Detailed Forest Management Plan which provide direction to forest management within the areas managed by the organization.

The forests managed by the Company are within the boreal forest eco-region, and are made up of conifer as well as deciduous stands. Common tree species are pine, spruce, balsam, trembling aspen, and poplar.

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, post-harvest regeneration of deciduous species through natural suckering, and in the case of conifer species regeneration through planting with a mix of ecologically suited tree species.

Description of Millar Western Forest Products Ltd. Manufacturing Facilities and Fibre Sourcing Program

The company operates a pulp mill in the community of Whitecourt, Alberta, and sawmills in Fox Creek, Whitecourt, and Boyle, Alberta. Most of the logs for the mills are sourced from the company's SFI-certified timberlands, with the remainder being purchased from other crown-land operators (most of which are also SFI-certified) and minor amounts from private landowners.

The Company participates in the Western Canada SFI Implementation Committee (WCSIC) Purchase Wood Monitoring Program by completing risk assessments for all wood purchases, and completes purchase wood inspections as necessary. The results



SUSTAINABLE
FORESTRY
INITIATIVE

SFI-01154



PEFC™

#0746



are then collated by WCSIC (of which the Company is a member) in order to identify trends in performance and opportunities for improvement.

Audit Scope

The scope of the audit covered the following:

- The objectives of the SFI standard noted in a table later in this report, and the organization’s activities and management system processes that pertain to them.
- Activities conducted under the Company’s management system between November 28, 2014 to October 2, 2015.

The Audit

- **Audit Team** – The audit was conducted by Yurgen Menninga, RPF, EP(EMSLA), as lead auditor, and Bodo von Schilling, RPF, EP(EMSLA). Yurgen is an employee of KPMG, and Bodo is a KPMG contractor, and both have conducted numerous forest management audits under a variety of standards including SFI, ISO 14001, CSA Z809 and FSC.
- **2015 SFI Surveillance Audit** – The audit involved an on-site assessment of a sample of elements of the Company’s environmental management system (EMS) and SFI program, and included visits to several field sites (9 roads, 10 cutblocks, 2 silviculture sites, and 2 fibre sourcing sites) to evaluate conformance with the requirements of the current SFI forest management and fibre sourcing standards. The audit took a total of nine auditor days to complete, eight days of which were spent on-site at the operations included in the audit sample. 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.
- **Multi-site Audit Sampling** – Millar Western holds a multi-site SFI certificate covering a total of two woodlands operations and associated fibre sourcing activities based out of Whitecourt as well as Boyle, Alberta. Based on a sampling plan developed for the company, one of the two divisions, Whitecourt, was elected for sampling for the 2015 audit. This sample size is consistent with IAF requirements regarding audit sampling for multi-site certifications.
- **Millar Western’s SFI Program Representative** – Brent Huizinga, RPF, served as Millar Western’s SFI program representative during the audit.

Use of Substitute Indicators

No substitute indicators were used during the audit.

Millar Western Forest Products Ltd. 2015 SFI Audit Findings

New major non-conformities	0
New minor non-conformities	4
New opportunities for improvement	3

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.

Audit Objectives

The objectives of the audit were to evaluate the sustainable forest management system at Millar Western to:

- Determine its conformance with the requirements of the SFI 2015-2019 forest management and fibre sourcing standards;
- Evaluate the ability of the system to ensure the company meet applicable regulatory requirements, and;
- Evaluate the effectiveness of the system in ensuring the company meets its specified SFM objectives.

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.

SFI Forest Management Objective #	Sources of Key Evidence of Conformity
1. Forest Management Planning	Forest management plan, geographic information system, forest inventory records, harvesting records, interviews with planning staff, field inspections.
2. Forest Health and Productivity	Not in scope for 2015.
3. Protection and Maintenance of Water Resources	Field inspections of riparian areas, review of site plans & harvest plans.
4. Conservation of Biological Diversity	Not in scope for 2015.
5. Management of Visual Quality and Recreational Benefits	Forest management plan, procedures, harvest plans, field inspections.
6. Protection of Special Sites	Not in scope for 2015.
7. Efficient Use of Fibre Resources	Forest management plan, field inspections.
8. Recognize and Respect Indigenous Peoples' Rights	Not in scope for 2015.
9. Legal and Regulatory Compliance	Forest management plan, health & safety policy, field inspections.

Evidence of Conformity with the SFI 2015-2019 Forest Management and Fibre Sourcing Standards—cont'd

SFI Forest Management Objective #	Sources of Key Evidence of Conformity
10. Forestry Research, Science & Technology	Forest management plan, records of research projects and funding, staff interviews.
11. Training and Education	Not in scope for 2015.
12. Community Involvement and Landowner Outreach	Forest management plan, SIC minutes & resources, community and landowner outreach records, staff interviews.
13. Public Land Management Responsibilities	Not in scope for 2015.
14. Communications and Public Reporting	Certification summary report, SFI website
15. Management Review and Continual Improvement	Internal audit report and associated action plans, management review.

SFI Fibre Sourcing Objective #	Sources of Key Evidence of Conformity
1. Biodiversity in Fibre Sourcing	Not in scope for 2015.
2. Adherence to Best Management Practices (BMPs)	Fibre sourcing policy, 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	Records of fibre delivered by qualified logging professionals, interviews with procurement staff.
4. Legal and Regulatory Compliance	Company policies regarding regulatory compliance, procedures to ensure compliance with applicable regulatory requirements, inspection of a sample of procurement sites.
5. Forestry Research, Science & Technology	Records of research projects and funding, staff interviews.

Evidence of Conformity with the SFI 2015-2019 Forest Management and Fibre Sourcing Standards—cont'd

SFI Fibre Sourcing Objective #	Sources of Key Evidence of Conformity
6. Training and education	Not in scope for 2015.
7. Community Involvement and Landowner Outreach	SIC minutes & resources, community and landowner outreach records, staff interviews.
8. Public Land Management Responsibilities	Not in scope for 2015.
9. Communications and Public Reporting	Certification summary report, SFI website.
10. Management Review and Continual Improvement	Internal audit report, management review minutes
11-13.Sourcing from outside Canada / USA	N/A to Millar Western

Good Practices

A number of good practices were identified during the course of the audit. Examples included:

- SFI Forest Management Objective 15/Fibre Sourcing Objective 10 (continual improvement) – The company maintains plans documenting how the SFI standard is met, providing details of personnel with responsibilities for all indicators, as well as processes and documents in place to meet the indicators.
- SFI Forest Management Objective 3 (water quality) —For bridges, the company has professional biologists oversee the permitting as well as the work in and around the streams, providing assurance of legislative compliance.
- SFI Forest Management Objective 3 (water quality) — All company long term roads have been inspected in the past year, i.e. about 1000km.
- SFI Forest Management Objective 4 15/Fibre Sourcing Objective 1 (biodiversity) — At some of the blocks visited, the harvesting crews had done a notable job of selective retention of understory and overstory trees
- SFI Forest Management Objective 5 (recreation) At one block the harvesting crew managed the sequence of events to protect a snowmobile trail from potential impacts.

Follow-up on Findings from Previous Audits

At the time of this assessment there were two open non-conformities from previous audits. The audit team reviewed the status of the action plans that were developed by the Company to address these previous audit findings and found the following:

- With regards to a finding around sediment entering a stream at a road crossing location, corrective actions were verified as fully implemented and the finding is now closed.
- With regards to a non-conformity around risk management strategies for uncommon plant communities, corrective actions are still being implemented and this finding remains open.

New Areas of Nonconformance

The audit identified the following four minor nonconformities:

- **SFI Fibre Sourcing Objective 10 / Forest Management Objective 15 (continual improvement)**) The internal audit and management review did not consider the SFI fibre sourcing requirements.
- **SFI Fibre Sourcing Objective 2 (adherence to best management practices)** — There are no written agreements requiring the use of best management practices.
- **SFI Fibre Sourcing Objective 3 (use of QLPs)** — The company does not maintain a list of QLPs, as the standard requires.
- **SFI Forest Management Objective 3 (water quality)** — in one area, the road reclamation inspection had not been completed in a timely fashion, and slumping was occurring such that sediment entering the stream was imminent.

Opportunities for Improvement

The following opportunities for improvement were identified during the audit:

- **SFI Forest Management Objective 2 (forest health and productivity)** — There is no system to test all fire equipment to confirm everything works.
- **SFI Forest Management Objective 3 (water quality)** — It is noted that there are more issues with water and riparian areas than in the past
- **SFI Fibre Sourcing Objective 6 (training)** — It is noted that information provided to log sellers lists the SFI objectives that relate to the new forest management standard rather but not the fibre sourcing standard (which applies to purchase wood).

Corrective Action Plans

Corrective action plans designed to address the root cause(s) of the non-conformities identified during the audit have been developed and reviewed and approved by KPMG PRI. The next 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.

Audit Conclusions

The audit found that:

- Were in full conformance with the requirements of the SFI 2015-2019 forest management and fibre sourcing standards included within the scope of the audit, except where noted otherwise in this report;
- Have been effectively implemented, and;
- Are sufficient to systematically meet the commitments included within the organization’s environmental and SFM policies, provided that the systems continues to be implemented and maintained as required.

As a result, a decision has been reached by the lead auditor to recommend that Millar Western Forest Products Ltd be certified to the SFI 2015-2019 forest management and fibre sourcing standards.

Focus Areas for the Next Audit Visit

The following issues/potential concerns have been identified as focus areas for the next audit visit:

- Providing the updated Western Canada SFI Implementation Committee information package to log sellers.
- Updating of procedures, documentation, etc. to reference the current 2015-2019 version of the SFI standards.

Contacts:

Chris Ridley-Thomas, RPBio, EP(EMSLA) (604) 691-3088
 David Bebb, RPF, EP(EMSLA) (604) 691-3451

This report may only be reproduced by the intended client, Millar Western Forest Products Ltd., with the express consent of KPMG. Information in this issue is of a general nature with respect to audit findings and is not intended to be acted upon without appropriate professional advice. © 2016 KPMG. All rights reserved.