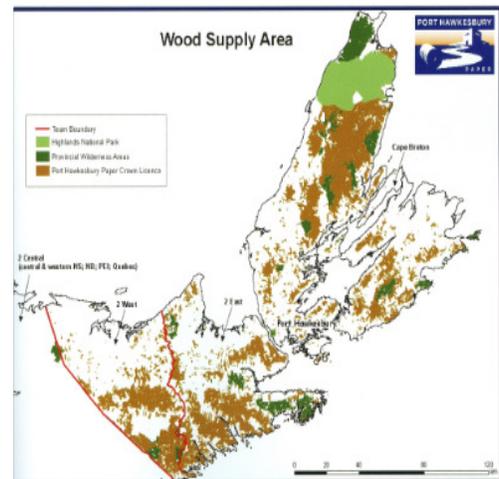


Forest Certification UPDATE



PORT HAWKESBURY PAPER LP

Located on the shores of the Strait of Canso in Nova Scotia (Canada), PORT HAWKESBURY PAPER LP is a producer of supercalendered paper. On an annual basis they can produce 360,000 tonnes per year. In order to insure a constant fiber supply basis, the woodland staff manages approximately 523,000 hectares on Crown land, and short term agreements with private landowners for wood harvesting and forest management treatments. Wood from private suppliers and woodchips from sawmills is also carried out to ensure the requirements of the paper mill are met.



BACKGROUND

During the period of May 27 to May 30th, 2014 PORT HAWKESBURY PAPER LP underwent an initial registration audit to the Sustainable Forestry Initiative (SFI®) Standard 2010-2014. The registration cycle is over 3 years with surveillance audits conducted annually. This report summarizes the audit process and results of the SAI Global initial audit.

SCOPE OF CERTIFICATION

Forest management activities - planning, harvesting, transportation and silviculture on NS Crown land (FULA) and procurement of fiber from the silviculture treatment program to private land owners, and procurement from private wood suppliers and wood chips suppliers. - Objectives 1-20.

EXECUTIVE SUMMARY

The SFI Program third-party initial registration was undertaken by SAI Global. SAI Global is an independent third party registrar that is accredited by the ANSI-ASQ National Accreditation Board (ANAB) for registrations to SFIS 2010-2014. This ensures the integrity and credibility of the audit process.

The audit assessed active and completed harvest operations through interviews with PORT HAWKESBURY PAPER LP staff and contractors. The audit also assessed the SFIS and supporting EMS documentation and records at the PORT HAWKESBURY PAPER LP office. The audit used site visits and interviews with contractors logging private timber sales to assess the PORT HAWKESBURY PAPER LP procurement system.

THE AUDITORS

The SAI Global audit team who performed the audit consisted of Pierre Levac ing.f. M. Sc. and Martin Litchfield RPF. The auditors are Professional Foresters and certified lead auditors.

KEY AREAS OF NON-CONFORMANCE

NC No	Clause No	Clause Description
2014-01	10.1.2	PM 10.1. Program Participants shall clearly define and implement policies to ensure that facility inventories and fiber sourcing activities do not compromise adherence to the principles of sustainable forestry. Indicator No 2. Program to require that harvests of purchased stumpage comply with best management practices.
2014-02	10.1.5	PM 10.1. Program Participants shall clearly define and implement policies to ensure that facility inventories and fiber sourcing activities do not compromise adherence to the principles of sustainable forestry. Indicator No. 5. Program Participants shall clearly define their fiber sourcing policies in writing and make them available to wood producers.
2014-03	10.2.1	PM 10.2. Program Participants shall monitor the use of best management practices. Indicator No 1. A verifiable monitoring system to: a) monitor the use of best management practices by wood producers supplying the Program Participant; and b) evaluate use of best management practices across the wood and fiber supply area.

SFIS 2010-2014

Periodic Assessments

Major non-conformances: 0
 Minor non-conformances: 4
 Opportunities for Improvement: 8
 Positive Aspects: 5

Major Non-Conformances

Pervasive or critical to the achievement of the SFI objectives.

All major non-conformances require an action plan to be implemented by the auditee within 90 days of an initial audit and subsequently 60 days or registration cannot be achieved / maintained

Minor Non-Conformances

Isolated incidents that are non-critical but must be addressed before the next surveillance audit to maintain compliance to the SFI standard.

Opportunity for Improvement

Are not non-conformances but are comments on specific areas where improvements can be made.

Positive Aspects

Areas that are deemed to be of best practices

2014-04	14.1.2	<p>PM14.1. Program Participants shall take appropriate steps to comply with applicable federal, provincial, state and local forestry and related social and environmental laws and regulations.</p> <p>Indicator No 2. System to achieve compliance with applicable federal, provincial, state or local laws and regulations.</p>
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KEY OPPORTUNITIES FOR IMPROVEMENT

- Policy: Consider putting the new updated SFM Standard Practices Policy of PHP on the WEB site.
- PM 3.1.2: Consider modifying the Logging Service Provider Contract to address the discontinuation of the Master Logger program.
- PM 8.1.2: Consider improving and adapting for the most relevant FECV, the material communicated to private landowners.
- PM 9.1.1: Consider improving the manual documentation (SFI Evidence Checklist) for this indicator.
- PM 10.1.3: Consider improving the management process that records the acceptance to the implementation of the BMP per contract.
- PM 16.1.4: Consider developing an annual Contractor communication session to explain company directions, new legal changes and results from certification audits, including positive pats-on-the back.
- PM 16.1.5: Consider reviewing the requirements for the Qualified Logging Professional and the expectations for on-site supervision with the Maritime SIC group.
- PM 17.3.2: Consider modifying the tracking of Public Inquiries procedure to identify the need to notify SFI of an Inconsistent Practice or complaint.

CORRECTIVE ACTION PLANS

PORT HAWKESBURY PAPER LP have developed corrective action plans to address the root causes of the non-conformities identified during the audit. The root cause analysis and proposed corrective actions have been reviewed by SAI Global to ensure that they are appropriate and fully address the identified deficiencies. At the next annual Surveillance audit a follow up on the implemented corrective actions will be done to confirm that the corrective actions were appropriate and effective in ensuring the non-conforming situation has not reoccurred.

POSITIVE ASPECTS

- The commitment at all levels to support the implementation of the SFI program.
- The commitment to forest management.
- The effective use of FPtrack and FPDat to improve harvesting efficiency.
- The awareness of harvesting prescriptions by operators.
- The merchandizing of fiber for optimum use.

EVIDENCE OF CONFORMITY

Evidence that was assessed to determine PORT HAWKESBURY PAPER LP conformity with the SFIS 2010-2014 standard appears below:

SFI-01 Forest Management Planning

PORT HAWKESBURY PAPER LP has a long term agreement with the Nova Scotia Government (FULA). At this time the sustainable forest management (SFM) long term plan is valid until 2015. A new plan is under preparation. They are using modern tools, software and up to date field information to evaluate the new SFM plan. The harvested level for the period 2006-2014 is under the permissible level for the softwood and hardwood.

SFI-02 Forest Productivity

The criteria defining the forest productivity criteria to be protected / achieved / respected were established by NS DNR and are part of the conditions of the FULA and the FMP to be respected. Monitoring process and records demonstrate that all areas harvested by PORT HAWKESBURY PAPER LP were respectful of their obligations to exclude / protect / replant within 2 years. Other silvicultural activities, like precommercial thinning, commercial thinning and others activities are also performed. In order to respect the NS criteria's, work instructions and operating reports have been developed.

SFI-03 Protection and Maintenance of Water Resources

In order to protect and maintain the protection and maintenance of water resources, work instructions have been applied for numerous years in order to be in compliance with Federal and NS laws and regulations for water bodies, streams and etc. The main focus of all the work (siltation, buffer, wet-weather events) instructions is to insure proper application and responsibilities by all parties that may be involved. Monitoring process is in place for every steps of the operating process.

SFI-04 Conservation of Biological Diversity

In order to protect and maintain the biological diversity, work instructions have been applied for numerous years in order to promote the identified conservation or protection values or areas. Also, in order to be in compliance with Federal and NS laws and regulations for the protection of endangered or threatened species, wildlife habitats and ecological community types, work instructions and training has been provided. The main focus is to work in cooperation with various stakeholders for the protection or management of identified values within the identified areas.

SFI-05 Management of Visual Quality and Recreational Benefits

Work instructions have been developed for the management of visual quality, clearcut size, green up requirements and recreational areas. The management of those areas is principally performed by the use of GIS and their integration in the annual management plans.

SFI-06 Protection of Special Sites

A complete report integrates and consolidates the information from different sources, but also describe the protection measure that should be used. Work instructions have been developed for the protection of special sites. The management of those areas is principally performed by the use of GIS and their integration in the annual management plans.

SFI-07 Efficient Use of Forest Resources

Criteria have been defined, training has been insured and incentives have been put in place to ensure the efficient use of forest resources. A monitoring process is in place per cut block to evaluate the efficiency or the research of market for secondary species or quality.

SFI-08 Land Outreach

A "Landowner Outreach Package" has been developed in 2014 and has been distributed to all private woodlot owners. Part of the communication process has included a clear invitation to participate and implement the SFI Values.

SFI-09 Use of Qualified Resource and Logging Professionals

PORT HAWKESBURY PAPER LP has rewrote in early 2014, the wood supply agreement from private sources and the private wood purchase terms, to include the strong commitment that encourage landowners to utilize the service of certified logging professionals. The list of certified logging professionals and qualified logging professional is maintained by the Company.

SFI-10 Adherence to Best Management Practices

A series of actions has been implemented to encourage the use of certified logging professionals for the wood issued from private owners. Cooperative work is in progress with the Maritime SIC. A "Private Wood Purchase Terms Agreement" and "Preferred Private Supplier Agreement" have been put recently in place. All those documents emphasize the use of best management practices (BMP). For the wood harvested from Crown Land, the use of the BMP's are in place for numerous years. Minor non-conformances were issued and are related to minor management weakness and incomplete monitoring process related to adherence to the SFI values.

SFI-11 Promote Conservation of Biological Diversity, Biodiversity Hotspots and Major Tropical Wilderness Areas

PORT HAWKESBURY PAPER LP does not source fiber from outside North America.

SFI-12 Avoidance of Controversial Sources including Illegal Logging

PORT HAWKESBURY PAPER LP does not source fiber from outside North America.

SFI-13 Avoidance of Controversial Sources including Sources without Effective Social Laws

PORT HAWKESBURY PAPER LP does not source fiber from outside North America.

SFI-14 Legal and Regulatory Compliance

A legal compliance audit was performed by independent parties in 2014. The audit has demonstrated an excellent level of legal compliance. A minor non-conformance was identified from the legal compliance report. The legal compliance audit didn't cover the MSDS sheets witness in the service trucks.

SFI-15 Forestry Research & Technology

PORT HAWKESBURY PAPER LP participates actively in various research and forestry related committees at the provincial and regional level.

SFI-16 Training and Education

PORT HAWKESBURY PAPER LP has put serious emphasis on training, through work instructions since 1998 for Crown land activities. In spring 2014, an education package was prepared and distributed through seminar sessions. Also, serious activities with the Maritime SIC were initiated to enforce the SFI Values on a constant basis.

SFI-17 Community Involvement in the Practice of Sustainable Forestry

PORT HAWKESBURY PAPER LP is an active member of the Maritime SIC through various activities. Maritime SIC meeting minutes are on file.

SFI-18 Public Land Management Responsibilities

PORT HAWKESBURY PAPER LP is collaborating with the NS DNR on the development to the new SFM long term plan. Also, PHP has maintained a Forest Advisory Committee since 2000 and meet approximately 6 times a year. They have developed numerous work instructions and provided training sessions to all their employees to implement the various NS DNR requirements related to the FULA.

SFI-19 Communications and Public Reporting

It will be evaluated at their 12 months surveillance audit.

SFI-20 Management Review and Continual Improvement

PORT HAWKESBURY PAPER LP has conducted a very complete management review meeting with the same requirements than an EMS. Minutes and support documents are on files. It demonstrates a strong continual commitment for improvement.





SAI Global forestry specialist group registers/certifies forest companies to ISO 14001, OHSAS 18001, CSA Z809 and CSA Z804 SFM, SFIS, SFI CoC, PEFC CoC. QMI-SAI Global registers/certifies forest companies to FSC FM and CoC. The group, led by Sylvain Frappier, Technical Manager - Forestry, consists of a highly qualified team of professional foresters, technical and industry experts. Contact certification.americas@saiglobal.com for more information.

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