



# REPORT Forest Certification



## Sierra Pacific Industries

### Washington and California Woodland Operations

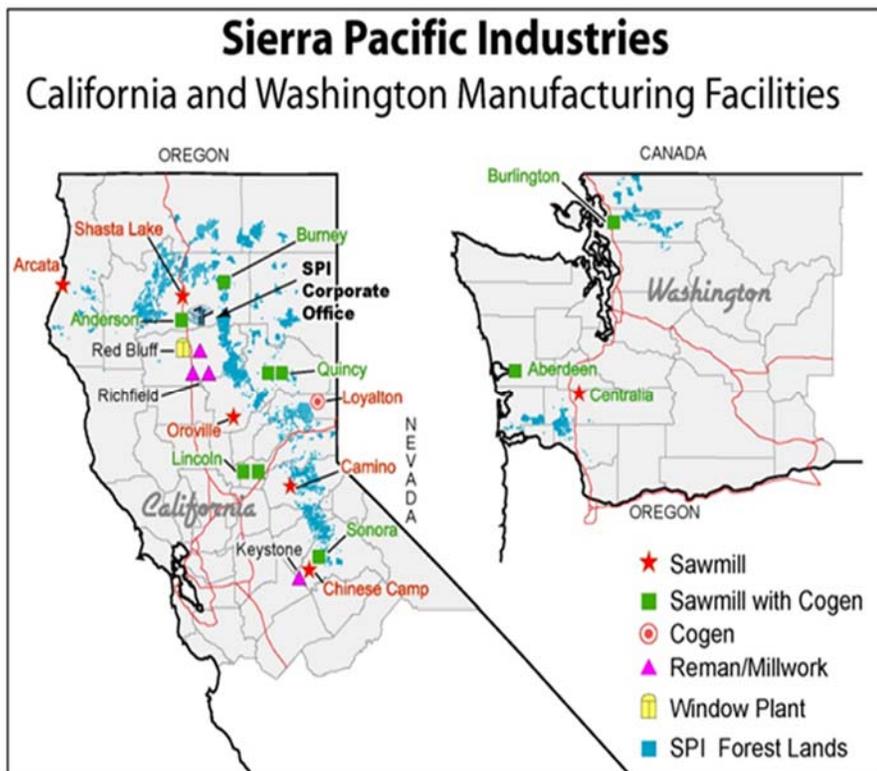
#### SFI Surveillance Audit

July 2015

During the period March to July 2015, an audit team from KPMG Performance Registrar Inc. (PRI) carried out a surveillance audit of Sierra Pacific Industries (SPI) forestry and procurement operations under the Sustainable Forestry Initiative® (SFI) Program. This Summary Report provides an overview of the process and KPMG's findings.

#### Description of Sierra Pacific Industries Operations

SPI owns private forest land in and carries out fiber sourcing from both California and Washington State.



#### California

##### 1. Forest Management Operations:

SPI is the largest private forest land owner in California, with its operations currently encompassing approximately 1.67 million acres of timberland throughout northern California. The land ownership pattern consists of both large contiguous tracts of land and a significant number of smaller non-contiguous tracts. The private



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timberland operations are managed by the Company through eight separate field operations. Planning and research staff are located at the main office in Anderson, California.

SPI's land holdings in California reside in the Klamath Mountains, Southern Cascades and Sierra Nevada ecological subregions. Dominant forest types under SPI management in these subregions include Ponderosa Pine, Douglas-fir, Klamath and Sierra Mixed Conifer (Ponderosa Pine, Sugar Pine, White Fir, Douglas Fir, Incense Cedar), Mixed Hardwood-Conifer, Black Oak, Red Fir, White Fir and Jeffrey Pine. SPI carries out even aged, uneven aged, shelterwood and seed tree silviculture regeneration systems, along with pre-commercial thinning and commercial thinning. All clearcut stands are planted with trees grown from specific seed zones and 500 foot elevation bands.

Three demonstrations ("Option A's") of Maximum Sustained Production (MSP) have been prepared and submitted for SPI's California operations—one each for the northern, southern and coastal State Forest Districts. The Option A's establish long-term goals and objectives for key timber and non-timber values consistent with the requirements of the California Forest Practices Rules and SPI's voluntary practices and commitments. They also establish the associated forest management approaches, standing inventory and growth and yield modeling scenarios, assumptions and timber production constraints to address these goals and objectives, as well as to model growth, harvest and long term sustained yield (LTSY) levels over the 100 year strategic planning horizon.

In order to balance growth and harvest over time, existing annual harvest levels have been established at levels well below the long term sustained yield (i.e., just over 523 MMBF versus a LTSY of just over 1,332 MMBF). SPI's tracked actual harvest level over the 1999—2014 period averaged 18% below the calculated allowed annual harvest level for its California operations.

Short-term (7-year), sub-district level Timber Harvesting Plans (THPs) are established to guide specific harvesting, road development and silviculture scheduling/strategies on a sub-basin or larger basis. THPs incorporate specific operational approaches for addressing MSP goals and objectives, Forest Practices Rules and Company practices and commitments for identifying and protecting timber and non-timber resource values (wildlife and habitat features, aesthetic, recreation, range/forage, riparian, watersheds, fisheries, etc.).

### 2. Fiber Sourcing Operations:

SPI fiber sourcing operations in California are carried out by procurement foresters associated with sawmills located in Anderson (which also contains a pole plant), Arcata, Burney, Shasta Lake, Oroville, Quincy, Chinese Camp and Lincoln. The percentage of the mills' fiber supply which is obtained through SPI's procurement program is approximately 50% across the California mills.

Logs are received at the sawmills from a number of sources, including SPI's own fee lands (approximately 50%), stumpage sales on private or federal land and direct log purchases from land managed or owned by Timber Investment Management Organizations, Real Estate Investment Trusts, family forest owners, tribal lands, private landowners and other US public lands. The majority of the incoming logs originate from California, with small proportions of the total supply coming from Oregon and Nevada.

### Sierra Pacific Industries SFI 2010-2014 Surveillance Audit Findings for 2015

|   |   |
|---|---|
| Minor nonconformities from previous audits that remain open | 0 |
| New major nonconformities                                   | 0 |
| New minor nonconformities                                   | 2 |
| New opportunities for improvement                           | 2 |

#### Types of audit findings

##### Major nonconformities:

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

##### Minor nonconformities:

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 nonconformities must be fully implemented within 12 months.

##### Opportunities for Improvement:

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

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The monitoring system in place at SPI respecting its log supplies comprises a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by each mill’s procurement forester on a sample of its suppliers and violation data received from the California Department of Forestry.

### Washington State

#### 1. Forest Management Operations:

SPI manages 130,000 acres (Hamilton Tree Farm) and 95,000 acres (Ryderwood Tree Farm) of private timberlands in the northwest and southwest portions of the State respectively, managed from district woodlands offices located in Burlington and Centralia. The Company’s Washington holdings also include a seed orchard situated on Whidbey Island.

SPI’s land holdings in Washington reside in the Cascade Mixed Coniferous Forest ecological subregion. Dominant forest types under SPI management in this subregion include Douglas-fir, Western Hemlock, Western Red Cedar, Sitka Spruce, Grand Fir, Red Alder and Broadleaf Maple at lower elevations and Pacific Silver Fir, Mountain Hemlock and Subalpine Fir at higher elevations. SPI carries out even aged management on its Washington holdings, along with pre-commercial thinning and commercial thinning. All clearcut stands are planted with trees grown from specific seed zones and elevation bands.

Long term resource analyses, based on SPI’s inventory program and growth and yield model functions, and associated harvest plans have been established for both the Hamilton and Ryderwood Tree Farms. The analyses and plans reflect the requirements of the Washington Forest Practice Rules, which establish the overall legal requirements respecting long term management planning, harvest scheduling and the identification and protection of non-timber resource values. The operable, forested landbase was arrived at in the analyses following net downs for riparian, non-forest, unstable slopes, unproductive land, etc. Mid-term harvest (out to 2021) levels have been developed for the two tree farms which relate to the long term sustained yield levels (which sits at over 120 MMBF) established for the two tree farms. Shorter term harvest scheduling (upcoming 3 years) refines the delineation of the block boundaries by incorporating other spatially explicit considerations (riparian, heritage, roads, etc.). Forest Practice Applications (FPAs) submitted for approval to the Department of Natural Resources (DNR) establish the stand-level operational plan covering timber and non-timber values (which link to WA Forest Practice Rule requirements). Detailed annual harvest plans (with block-specific inventory and scheduled cut volumes) are also prepared specifying proposed layout and development and FPA approval status. All harvesting on SPI managed land in Washington also addresses the retention standards of the State of Washington Aquatic Species Habitat Conservation Plan.

The near term estimated sustained yield annual harvest is approximately 65 MMBF (43 MMBF on the Ryderwood Tree Farm and 22 MMBF on the Hamilton Tree Farm). SPI’s tracked actual harvest level over the 2008—2014 period at the two Tree Farms averaged 10% below the calculated allowed annual harvest level.

#### 2. Fiber Sourcing Operations:

SPI fiber sourcing operations in Washington State are carried out by procurement foresters associated with sawmills located in Aberdeen, Burlington and Centralia. The percentage of the mills’ fiber supply which is obtained through SPI’s procurement program is approximately 85% across the three Washington State mills.



The field audit included visits to a sample of SPI purchase wood blocks, including (as shown above for the Lincoln District) USDA Forest Service fire salvage stumpage sales. SPI used its own trained contractor loggers on this sale to salvage black wood and retain green wood. The pictures also depict retention around Watercourse and Lake Protection Zones (WLPZs) and erosion control measures implemented at a stream crossing and on skid trails.

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Logs are received at the Washington sawmills from the same categories of sources cited above for SPI's California fiber sourcing operations, with the majority of the incoming logs originating from Washington State and small proportions of the total supply coming from British Columbia and Oregon.

The monitoring system in place at SPI respecting its log supplies comprises a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by its procurement foresters on a sample of its suppliers and violation data received from the Department of Natural Resources.

### Audit Scope

The audit was conducted against the requirements of the 2010-2014 edition of the SFI standard and incorporated an assessment of selected SFI program objectives for SPI operations in Washington and California as noted under "Evidence of Conformity with SFI 2010-2014" below.

In addition, KPMG PRI reviewed the implementation of SPI's action plans designed to address the incremental requirements of the 2015-2019 edition of the SFI Forest Management and Fibre Sourcing Standards. The results of this evaluation are documented on the last page of this report.

In addition to 1.5 days spent off-site conducting a document review prior to the on-site audit, the scope of the 2015 SFI surveillance audit included visits to the following SPI California and Washington operations (days spent at each site are noted in parenthesis):

- Land management operations in the Ryderwood Tree Farm in Washington conducted from the Centralia, WA District office (2.5 days).
- Washington procurement operations for the Centralia sawmill (0.5).
- Land management operations in California conducted by the Martell (1.5), Stirling (1.5) and Tahoe (1.5) Districts.
- California procurement operations for the Oroville (1.5), Quincy (1.5) and Lincoln (1.5) sawmills.
- Visits to SPI's head office located in Anderson, CA (2).

### The Audit

- **Audit Team** – The surveillance audit was conducted by Craig Roessler, RPF(BC), EP (EMSLA), CF(SIF) and William Kleiner, RPF(CA), CF(SIF). Craig, who was the lead auditor, is an employee of KPMG PRI and has conducted numerous forest management audits under a variety of standards including SFI, CSA Z809, FSC and ISO 14001. William Kleiner, an independent consultant, also has considerable experience conducting SFM audits against the SFI standard.
- **SFI Surveillance Audit** – The audit involved an on-site assessment of selected elements of the Company's sustainable forest management system and SFI program, and included visits to field sites in both Washington and California to evaluate conformance with the requirements of the current version of the SFI standard. Field visits were made to 7 of the Company's land management and procurement operations during the course of the audit.



The field audit included visits to a sample of active blocks on SPI lands (as shown above for the Martell District) to assess contractor awareness of management system and block-specific operational issues and requirements. The field audits of active and inactive blocks were also conducted in order to assess plan implementation, including the protection of resource values. The pictures above depict a fuel break prescription in the vicinity of a community, where marked large, fire resistant trees (in addition to Black Oak for biodiversity objectives) are retained and smaller trees and dense vegetation are removed to open up the stand and reduce fuels in order to reduce the risk and hazard of wildfire moving into the tree canopy. Other resource values identified and protected (typically through surrounding treed buffers) on this block included a rare plant and pre-historic archeological and historic features.

- *SPI SFI Program Representative* – Mr. Mark Pawlicki served as the SPI SFI program representative during the audit.
- *Multi-site Sampling Approach* – The sites audited this year as noted above were selected on the basis of the multi-site sampling approach specified in IAF MD-1—i.e., the number of sites visited within each stratum met at least the minimum number of sites required for a surveillance audit (3 of 7 California procurement operations, 3 of 8 California land management/procurement operations, 1 of 2 Washington land management operations and 1 of 3 Washington procurement operations), with the specific sites selected based on addressing a combination of geographic distribution, the results of previous audits and the period of time elapsed since the last audit of each operation.
- *Field Audit Sample* – The audit at each site sampled involved document and record reviews, interviews and inspection of roads (26 sites), harvesting practices (24), silviculture activities (16) and procurement sites (7). The sites selected for field review was based on a risk based sampling approach, which considers the need to assess a range of resource issues and management strategies that correlate to the SFI objectives included in the scope of the audit as well as the need to see a geographic distribution of activities, to include active sites and to enable an assessment of actions on previously identified audit findings.

### Use of Substitute Indicators

No substitute indicators were applicable to the audit

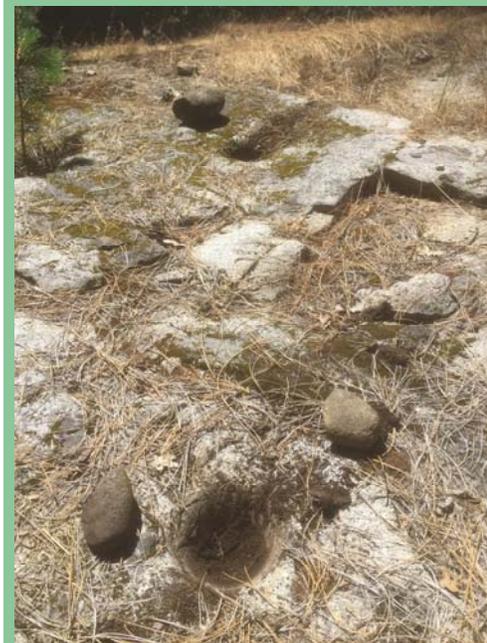
### Audit Objectives

The objectives of the 2015 SFI surveillance audit were to evaluate the Sustainable Forest Management (SFM) system at Sierra Pacific Industries to:

- Determine its conformance with the requirements of SFI 2010-2014.
- Evaluate the ability of the SFM system to ensure that the Company meets applicable regulatory requirements.
- Evaluate the effectiveness of the system in ensuring that Sierra Pacific Industries meets its specified objectives.
- Evaluate the Company’s action plans to meet the requirements of the 2015-2019 edition of the SFI standard. Findings from this evaluation are listed on the last page of this report.

### Evidence of Conformity with SFI 2010-2014

Primary sources of evidence assessed to determine conformity with the SFI 2010-2014 standard are presented in the Table on the next page.



Noteworthy examples of identification and protection of prehistoric artefacts (such as rock mortar and pestle as shown in the upper picture above for the Tahoe District) and sites (such as a buffered village site as shown in the picture directly above for the Stirling District) were observed during the field audit.

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|--|--|
| 1 – Forest Management Planning                                     | Not in scope during the 2015 surveillance audit.   |
| 2 – Forest Productivity  | Timber Harvest Plans (THPs - CA) and Forest Practices Applications (FPAs -WA); Regeneration Plans; Unit Completion data spreadsheet; Regeneration & stocking survey results; Soil maps; SPI fire policy and fire weather forecast system / webpage; District Fire Plans; Field inspections and interviews.   |
| 3 – Protection and Maintenance of Water Resources                  | Not in scope during the 2015 surveillance audit.   |
| 4 – Conservation of Biological Diversity                           | Lifeform Modeling & THPs (CA); FPAs and Hydraulic Permits (WA); SPI WA Wildlife Species Distribution Analysis; SPI plant and wildlife (PWWild) database; State natural heritage databases; SPI raptor policy, snag management objectives and botany policy; SPI THP wildlife reporting chart; Completed botany THP checklists; GIS topographic map layers; Field inspections and interviews. |
| 5 – Management of Visual Quality and Recreational Benefits         | Not in scope during the 2015 surveillance audit.   |
| 6 – Protection of Special Sites                                    | THPs (CA) and FPAs (WA); State natural heritage databases; GIS topographic map layers; SPI policy for special sites and forests of exceptional conservation value; Field inspections and interviews.   |
| 7 – Efficient Use of Forest Resources                              | Not in scope during the 2015 surveillance audit.   |
| 8 – Landowner Outreach   | SPI landowner information package; SPI log purchase contracts; SPI website; SFI landowner outreach tri-fold; WA and CA Implementation Committee (SIC) meeting minutes; WA and CA SIC websites; SPI procurement policy; Field inspections.  |
| 9 – Use of Qualified Resource and Logging Professionals            | SPI landowner information package; SPI log purchase contracts; SPI website; SIC meeting minutes; State forestry/logging contractor association and SIC websites; SPI policy on the use of certified and qualified logging professionals; SPI procurement policy; CA SIC policy and definitions regarding SFI Objective 9; Field inspections.   |
| 10 – Adherence to Best Management Practices                        | THPs (CA) and FPAs (WA); SPI landowner information package; SPI log purchase contracts; SPI website; SIC meeting minutes; State forestry/logging contractor association and SIC websites; BMP field inspections; SPI logger training materials; Field inspections and interviews.  |
| 11 to 13 – Not Applicable  | SPI does not source fiber from outside North America.  |
| 14 – Legal and Regulatory Compliance                               | THPs (CA) and FPAs & Hydraulic Permits (WA); SPI landowner information package; SPI log purchase contracts; WA Department of Natural Resources & CA Department of Forestry violation reports; SPI employees manual.  |
| 15 – Forestry Research and Technology                              | SPI research projects’ documentation and lists; SIC meeting minutes; Membership and SPI participation records.   |
| 16 – Training and Education  | SPI policy statement of commitment to SFI; SPI training records for staff and contractors; SPI staff and contractor logger training materials; SPI website; SIC meeting minutes; State forestry / contractor association websites; BMP inspection results; employee and contractor interviews.   |
| 17 – Community Involvement in the Practice of Sustainable Forestry | Not in scope during the 2014 surveillance audit.   |
| 18 – Public Land Management Responsibilities                       | NA – SPI does not have forest management responsibilities on public lands.   |
| 19 – Communications and Public Reporting                           | SPI website; SPI supporting records for SFI annual progress report; Latest (2014) and previous year’s annual SFI progress reports.   |
| 20 – Management Review and Continual Improvement                   | SPI annual management review meeting and input records; Corporate and District field audit results; Annual VP letter confirming SFI performance review.  |



SPI’s Botany Policy continues to be effectively implemented by the Districts (with the assistance of the Anderson Botany Group) to identify and protect rare plants. District-specific plant lists have been prepared which allows for a more focused scoping exercise during the preparation of THPs and associated layout of blocks. Both listed and non-listed species are reflected in SPI’s database, which is frequently updated to reflect new sitings and any new listings of species of concern or changes in government designations.

The field audit observed a number of instances where rare plants were identified and protected through treed buffers (with the upper picture showing protected monkey flowers (*Mimulus sp.*) and the lower picture showing protected Stebbin’s phacelia (*Phacelia stebbinsii*)).

### Good Practices

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

- SFI Objective 2 (Forest Productivity) – A mix of tree species is being planted and good retention of naturals is occurring (particularly Incense Cedar), which is providing excellent pre-harvest representation of a diversity of species in plantations.
- SFI Objective 2 (Forest Productivity) – A shaded fuel break was effectively implemented for resource and public (Community of Stirling) protection on a Stirling District block visited during the field audit.
- SFI Objectives' 2 (Forest Productivity) and 3 (Protection and Maintenance of Water Resources) – A steep and clayey harvest unit visited during the field audit in the Centralia District had been operated on conservatively to avoid excessive soil disturbance and to maintain soil and site productivity. For example, a perennial initiation point had been buffered out as a no harvest zone, despite the WA Practice Rules requiring only an equipment limitation zone.
- SFI Objective 3 (Protection and Maintenance of Water Resources) – The Centralia District has taken considerable effort to field verify and mark all 900 perennial initiation points on the Ryderwood Tree Farm.
- SFI Objective 3 (Protection and Maintenance of Water Resources) – Road drainage, erosion controls and hydrologic disconnection (including effective use of rolling dips with armored outfalls) were found to be effectively established and maintained on newly constructed and upgraded roads (including on the USFS 98 Road in the Tahoe District).
- SFI Objectives' 3 (Protection and Maintenance of Water Resources) and 15 (Forestry Research, Science and Technology) – SPI continues to conduct operational research on its lands as evidenced by a research project in the Battle Creek Watershed studying post-Ponderosa Wildfire soil erosion and sediment delivery from salvage logging operations in comparison to control sites disturbed only by the fire (the first year results of which were publicly released in a September 2014 report).

### Areas of Nonconformity

The 2015 surveillance audit identified the following minor nonconformities with respect to the SFI 2010-2014 standard:

- SFI Performance Measure 3.1 (Protection and Maintenance of Water Resources) – While road and drainage structure maintenance inspections are occurring in SPI's California Districts, they are more focused in active areas covered by a Timber Harvest Plan (THP). There is also variability between the Districts in their inspection and preventative maintenance scheduling programs and the associated level and extent of their coverage in inactive areas not covered by a THP. In addition, the audit also determined that the SPI Road Inspection Policy is not being imple-



The field audit observed noteworthy examples of rocked aprons in close proximity to ponds and water drafting locations (the upper picture was taken in the Stirling District and the lower picture in the Tahoe District).

mented with respect to the annual provision by the District Foresters of a report of findings and remedies to problems to the corporate office.

- SFI Performance Measure 16.1 (Training and Education) – Logger training programs are established in California by the Associated California Loggers organization (Pro Logger) and Logger Association of Northern California (Certified Logger) and in Washington by the Washington Contract Loggers Association (Master Logger). While a variety of courses and continuing education curricula is offered in these programs, the SFI Implementation Committees have not worked closely with these organizations (nor developed training policies or like procedures) for ensuring that the content required by SFI indicator 16.2.1 is fully covered in these programs.

### Opportunities for Improvement

The 2015 surveillance audit identified the following opportunities for improvement with respect to the SFI 2010-2014 standard:

- SFI Performance Measure 9.1 (Use of Qualified Resource and Logging Professionals) – While the Purchase Log Confirmation contracts prompt for the recording of whether or not the logger is a “Trained Logger” there is no specific prompt to record the logger’s name on the contract, making it more difficult to track this information.
- SFI Performance Measure 16.1 (Training and Education) – An isolated gap in the contractor’s awareness of fire and spill response equipment was noted on one active block field reviewed on the Ryderwood Tree Farm and the contractor’s shovel was missing a fire extinguisher and spill kit.

### Audit Conclusions

The audit found that Sierra Pacific Industries’ SFM system:

- Was in full conformance with the SFI 2010-2014 requirements included in the scope of the audit except as described in the nonconformities above;
- Continues to be effectively implemented; and
- Is sufficient to systematically meet the commitments included in SPI’s SFI Policy provided that the system continues to be implemented and maintained as required.

As no major nonconformities were identified during the audit, the audit team recommended that SPI continue to be certified to SFI 2010-2014 standard.

### Corrective Action Plans

Corrective action plans designed to address the root cause(s) of the nonconformities identified during the audit have been developed by Sierra Pacific Industries and reviewed and approved by KPMG PRI. The 2016 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 Company has voluntarily carried out numerous projects to restore wet meadow habitat (photo taken in the Tahoe District).



SPI continues to implement its Road Maintenance and Abandonment Plan (RMAP) in Washington, with noteworthy examples of culvert replacements observed in the field (including this culvert installed in the Centralia District, which replaced a much smaller one and included placement of gravel and rock inside the culvert at stream level to emulate the natural streambed and help facilitate fish passage).

## Appendix A: Transition to the 2015-2019 SFI Forest Management and Fibre Sourcing Standards

In addition to assessing SPI against the requirements of the 2010-2014 edition of the SFI standard, to which it is currently certified, KPMG PRI also reviewed SPI's action plans to address the incremental requirements of the 2015-2019 editions of the SFI Forest Management and Fibre Sourcing Standards. The following observations were made in relation to areas where the Company is currently still in the process of transitioning to the new requirements:

- SFI Forest Management Objective 2 (Forest Health and Productivity) – SFI 2015-2019 FM Standard indicator 2.2.4 prohibits the use of World Health Organization (WHO) type 1A and 1B pesticides, except where no other viable alternative is available. The field audit in California determined that a Strychnine-based rodenticide is being used by SPI for pocket gopher control in plantations without a full evaluation of the necessity of its use given the new SFI restrictions. However the audit confirmed that the product is well controlled and strictly administered.
- SFI Forest Management Objective 11 and SFI Fibre Sourcing Objective 6 (Training and Education) – SFI 2015-2019 FM Standard indicator 11.1.5 and SFI 2015-2019 FS Standard indicator 6.1.5 require Program Participants to have written agreements for the use of qualified logging professionals (QLPs) and/or certified logging professionals (CLPs) and/or wood producers that have completed training programs and are recognized as qualified logging professionals. While SPI encourages the use of CLPs and QLPs in the information it provides to wood producers and tracks whether or not its suppliers' are using trained loggers, there are no specific clauses in its purchase agreement or logging contracts for the use of QLPs or CLPs.
- SFI Forest Management Objective 12 and SFI Fibre Sourcing Objective 7 (Community Involvement and Landowner Outreach) – SFI 2015-2019 FM Standard indicator 12.1.2 and SFI 2015-2019 FS Standard indicator 7.1.2 require Program Participants to individually or collaboratively support education and outreach to forest landowners describing the importance of and implementation guidance on various forest management topics, including reduction of wildfire risk. SPI's forest landowner outreach information packet provided to wood producers does not currently explicitly describe the importance of and implementation guidance on reduction of wildfire risk.
- SFI Forest Management Objective 15 and SFI Fibre Sourcing Objective 10 (Management Review and Continual Improvement) – SPI's existing SFI internal audit and management review processes (including those conducted this year) are built around the 2010-2014 edition of the SFI standard and consequently require updating to fully address the 2015-2019 editions of the SFI FM and FS standards at Performance Measures' 15.1 and 10.1 respectively.



A mix of tree species are being planted and good retention of naturals is occurring (such as Incense Cedar), which is providing excellent pre-harvest representation of a diversity of species in SPI's California plantations.

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