

Spruceland Millworks Inc.—SFI Surveillance Audit February 2015

From February 2-5, 2015, KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI surveillance audit of Spruceland Millworks Incorporated (Spruceland)'s Timeu woodlands operations against the requirements of the 2010-2014 edition of the Sustainable Forestry Initiative® (SFI) standard. In order to ensure an efficient audit as possible, a PEFC chain of custody (CoC) was conducted at the same time. This Certification Summary Report provides an overview of the process and KPMG's relative to the requirements of the SFI standard.

Description of Spruceland Millworks Inc.'s Woodlands Operations

Spruceland's woodlands operations encompass a total area of 35,493 hectares of boreal forest located in the Forest Management Agreement (FMA) area held by Millar Western Forest Products Ltd., in the vicinity of Fort Assiniboine, Alberta. The Spruceland annual allowable cut (AAC) is 88,962 m³/year of coniferous timber, primarily from white spruce and mixed-wood stands.

Spruceland operates the Timeu sawmill in Fort Assiniboine, Alberta. Logs processed at the mill are obtained from the Millar Western FMA and through purchase agreement with other quota holders, all of whom hold their own sustainable forest management certifications. In addition, a small amount (less than 5%) is purchased from timber salvage and private land holders.

Spruceland is certified by KPMG PRI to the 2010-2014 version of the SFI standard. The Spruceland SFI certification is valid until December 6, 2015. An SFI 2015-2019 re-certification audit of Spruceland is scheduled to occur prior to that date.

Audit Scope

The February 2015 Spruceland audit was conducted against selected requirements of the 2010-2014 edition of the SFI standard, and incorporated an assessment against the SFI program objectives for:

- Forest productivity;
- Conservation of biological diversity;
- Protection of special sites;
- Fibre sourcing (landowner outreach and adherence to best management practices);
- Legal and regulatory compliance;
- Training and education;
- Public land management responsibilities, and;
- Management review and continual improvement.

The scope of the February 2015 Spruceland SFI audit included the woodlands operations noted above as well as fibre procurement activities for the Timeu sawmill.



The Audit

- **Audit Team** – The audit was conducted by Dave Bebb, RPF(BC), EP(EMSLA), an employee of KPMG PRI who has conducted numerous forest management audits under a variety of standards including SFI, ISO 14001, CSA Z809 and FSC.
- **SFI Surveillance Audit** – The audit involved an on-site assessment of a sample of elements of the Company’s SFI program, and included visits to a sample of field sites (3 roads, 3 harvest sites, 2 silviculture sites and 1 wood procurement site) to evaluate conformance with the requirements of the current SFI standard.
- **Surveillance Audits** – SFI surveillance audits are conducted annually by KPMG to provide assurance that the SFI requirements continue to be met.
- **Company SFI Program Representative** – Mr. Permanand Sieusahai, RPF served as the Spruceland SFI program representative during the audit.

Use of Substitute Indicators

No substitute indicators were used during the audit.

Audit Objectives

The objective(s) of the audit were to evaluate the sustainable forest management system at Spruceland Millworks Inc. to:

- Determine its conformance with the requirements of SFI 2010-2014;
- Evaluate the ability of the system to ensure that the Company meets applicable regulatory requirements;
- Evaluate the effectiveness of the system in ensuring that Spruceland Millworks Inc. meets its specified environmental objectives, and;
- Where applicable, identify opportunities for improvement.

Audit Conclusions

The audit found that the Spruceland Millworks Inc. woodlands operation was in full conformance with the requirements of the 2010-2014 version of the SFI standard, except where noted otherwise in this report. As a result, a decision has been made to continue to certify the Company to the SFI standard.

Corrective Action Plans

Corrective action plans designed to address the root cause(s) of the non-conformities identified during the audit have been developed by Spruceland 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.

Evidence of Conformity with SFI 2010-2014

Primary sources of evidence assessed to determine conformity with the requirements of the SFI 2010-2014 standard are presented in Table 1 on the following page.

Spruceland Millworks Inc. February 2015 SFI Surveillance Audit Findings	
Major non-conformities	0
Minor non-conformities	2
Opportunities for improvement	5

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.

Primary Sources of Evidence of Conformity with SFI 2010-2014

SFI Objective #	Key Evidence of Conformity
1. Forest Management Planning	Detailed Forest Management Plan (DFMP), timber supply analysis, General Development Plan (GDP), Annual Operating Plan (AOP), Final Harvest Plans (FHPs), staff interviews.
2. Forest Productivity	DFMP, Operating Ground Rules, SOPs and internal inspections, FHPs, staff and contractor interviews, inspection of a sample of field sites.
3. Protection and Maintenance of Water Resources	DFMP, Operating Ground Rules, FHPs, staff and contractor interviews, inspection of a sample of field sites with riparian features.
4. Conservation of Biological Diversity	DFMP, FHPs, staff and contractor interviews, inspection of a sample of field sites.
5. Management of Visual Quality and Recreational Benefits	DFMP, Operating Ground Rules, FHPs, staff and contractor interviews, inspection of a sample of field sites.
6. Protection of Special Sites	DFMP, Operating Ground Rules, site level archaeological assessment results, FHPs, staff and contractor interviews, field inspections.
7. Efficient Use of Forest Resources	DFMP, Operating Ground Rules, SOPs and internal inspections, staff and contractor interviews, inspection of a sample of field sites.
8. Landowner Outreach	Purchase Wood Agreements, SFI Information Package and Records of its distribution to landowners, Western Canada SFI Implementation Committee (WCSIC) website, interviews with procurement staff, field audit of sample of purchase sites.
9. Use of Qualified Resource and Logging Professionals	List of qualified logging contractors and records of its distribution to landowners, contractor training records, WCSIC website, staff and contractor interviews.
10. Adherence to Best Management Practices	Purchase Wood Agreements, Spruceland wood procurement policies, records of purchase wood inspections, WCSIC wood procurement monitoring records and analysis, interviews with procurement staff, field audit of sample of purchase sites.
Objectives 11 - 13	N/A. Spruceland does not source fibre from outside of North America.
14. Legal and Regulatory Compliance	Internal inspection, non-conformance and corrective/preventive action records, Forest Operations Monitoring Program (FOMP) results, internal audit reports, HR policies, staff and contractor interviews.



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Primary Sources of Evidence of Conformity with SFI 2010-2014

SFI Objective #	Key Evidence of Conformity
15. Forestry Research & Technology	DFMPs, Operating Ground Rules, research records and reports, interviews with key personnel.
16. Training and Education	EMS, employee and contractor training materials and records, staff and contractor interviews.
17. Community Involvement in the Practice of Sustainable Forestry	DFMP, public outreach and consultation records, training records, WCSIC meeting minutes and resources (i.e., WCSIC public website, Wood Producers Information Package), FMA Advisory Group meeting records, staff interviews.
18. Public Land Management Responsibilities	Public communication and correspondence records, FMA Advisory Group meeting records, records of consultation with Aboriginal people with an interest in the FMA, staff interviews.
19. Communications and Public Reporting	Certification summary report.
20. Management Review and Continual Improvement	Internal audit and management review management review records, staff interviews.

Good Practices

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

- SFI Objective 14 (legal and regulatory requirements) – Spruceland has a well-documented SFI program and PEFC CoC system. In addition, the Company has implemented a formal EMS that addresses ISO 14001 requirements, even though some elements of an ISO 14001 EMS (e.g., environmental aspects, etc.) are not specifically required to address SFI requirements.
- SFI Objective 16 (training and education) – The audit observed good staff/operator awareness of SFI requirements and the related Company procedures that have been developed to address them.

Areas of Nonconformance

A total of 2 minor non-conformities were however identified during the February 2015 Spruceland SFI surveillance audit. These included:

- SFI Objectives 10, 15, 16 and 17 – Various SFI requirements (e.g., Performance Measures 10.2, 15.2, 16.2, 17.1 and 17.3) are met through participation in the activities of SFI Implementation Committees (e.g., development of SFI information packages, identification of SFI training requirements, addressing non-conforming practices, etc.). However, the audit noted a general lack of participation in Western Canada SFI Implementation Committee (WCSIC) meetings by Spruceland (i.e., Spruceland did not participate in the Feb 4, 2013, July 24, 2013, October 31, 2013 or April 24, 2014 WCSIC meetings).



Spruceland operates the Timeu sawmill in Fort Assiniboine, Alberta. Logs processed at the mill are obtained from the Millar Western FMA and through purchase agreement with other quota holders, all of whom hold their own sustainable forest management certifications. In addition, a small amount (less than 5%) is purchased from timber salvage and private land holders.

Findings: Spruceland Millworks

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- SFI Rules for Off-product, Promotional Use of the SFI Mark – The SFI rules for off-product, promotional use of the SFI mark require that the Company’s unique identification number be added under the logo mark. However, the audit noted examples of off-product, promotional use of the SFI mark by Spruceland (e.g., on SFI training materials, business cards, etc.) where the SFI mark was not accompanied by the Company’s unique label ID number.

Opportunities for Improvement

In addition, a total of 5 new opportunities for improvement were also identified during the audit. These included:

- SFI 2015-2019 transition plan – The SFI 2015-2019 Standards and Rules require that surveillance audits conducted against the requirements of SFI 2010-2014 after March 31, 2015 include an assessment of the Company’s action plans to transition to SFI 2015-2019 by the end of 2015. However, the audit found that a formal action for doing so (which is required by March 31, 2015) is not yet in place.
- SFI Objective 1 (forest management planning) – The SFI standard requires that the Company have a Geographic Information System (GIS) to manage forest resource information (e.g., forest cover types, wildlife habitat, etc.). However, at this point in time the Company does not have its own GIS but instead relies on a third party to provide this service. The lack of direct access to a GIS creates inefficiencies in forest management planning and increases the risk that forest resource values may not be identified and adequately protected.
- SFI Objective 4 (conservation of biological diversity) – The Spruceland Species at Risk (SAR), Rare Plants and Heritage Values document (dated October 1, 2012) has yet to be revised to address a number of new SAR listings added by the province in the past few years (e.g., Bull trout, Western Grebe, etc.). Note: A number of the new listings either do not occur in the Millar Western FMA or are unlikely to be negatively impacted by forestry operations.
- SFI Objective 14 (legal and regulatory compliance) – The scope statement in the Spruceland EMS manual appears to be out of date (i.e., it references a coniferous timber quota in Millar Western’s FMA (CTQW110006) that has been replaced by CTQW110007). The Company’s SFM plan contains similar outdated text in the scope section of this document. In addition, the SFM policy in section 2.0 includes a reference to different forest company.
- SFI Objective 20 (management review and continual improvement) – The 2014 Spruceland PEFC/SFI internal audit was completed by the Company’s controller. However, while he has a good understanding of PEFC requirements, the current internal auditor may not have an adequate understanding of the forest management programs and practices necessary to address the requirements of the SFI standard.



The only tree species planted by the Spruceland are white spruce and lodgepole pine, both of which occur naturally on the Millar Western FMA. Review of the current Spruceland silviculture plan and ARIS reforestation records as well as interviews with Company staff and contractors found that there are relatively few Spruceland harvest blocks that are not satisfactorily restocked (NSR), and there are plans in place to address these.

Contacts:

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

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