



Conifex Timber Inc.—2015 SFI Surveillance Audit

From July 17-24, 2015 an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI surveillance 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 2010-2014 edition of the Sustainable Forestry Initiative® (SFI) standard. The audit also included a review of the Company's action plans to address the incremental requirements of the 2015-2019 SFI Forest Management and Fibre Sourcing standards. In order to ensure an efficient audit process, a PEFC chain of custody (CoC) surveillance audit was 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 314,000 hectares of public forest land and has an AAC of 640,000 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 Licence A15385 (which covers approximately 1,836,279 hectares of public forest land and has an AAC of 932,500 m³/year), as well as additional wood procurement activities required to supply the Mackenzie, B.C. sawmill.

The 2015 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 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, Engleman 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 powerplant 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 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 2010-2014 standard, and incorporated a limited scope assessment against the SFI program objectives for:

- Forest Productivity;
- Conservation of biological diversity including forests with exceptional conservation value;
- 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 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.
- **2015 SFI Surveillance Audit** – The audit involved an on-site assessment of the Company's sustainable forest management (SFM) system at the Mackenzie woodlands operation, and included visits to a variety of field sites (6 roads, 6 cutblocks and 1 wood procurement site) to evaluate conformance with the requirements of the SFI 2010-2014 standard. 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 2015 audit took a total of 8.5 auditor days to complete, 6 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 Inc. 2015 SFI Surveillance Audit Findings | |
|---|---|
| New major non-conformities | 0 |
| New minor non-conformities | 1 |
| New opportunities for improvement (OFIs) | 0 |
| Open non-conformities from previous audits | 1 |
| Non-conformities to SFI 2015-2019 standards | 6 |
| OFIs relating to the SFI 2015-2019 standards | 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.

- **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 2010-2014 version of the SFI standard. 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, its implementation, effectiveness and conformance with the requirements of SFI 2010-2014.
- Conifex's action plans to address the incremental requirements of the 2015-2019 SFI Fibre Sourcing and Forest Management standards. Note that under the transition requirements of the SFI 2015-2019 standards any non-conformities identified in relation to the incremental requirements of these standards will not affect the Company's SFI certification until December 31, 2015.
- The Company's implementation of the corrective action plans that were developed to address the findings of previous audits.

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 continue to certify Conifex Timber Inc. to the SFI 2010-2014 standard.

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 following page.



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: 2015 Conifex Timber Inc. SFI Surveillance Audit

| SFI Objective # | Key Evidence of Conformity |
|---|--|
| 1. Forest Management Planning | Not in scope for the 2015 surveillance audit. |
| 2. Forest 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 | Not in scope for the 2015 surveillance audit. |
| 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 | Not in scope for the 2015 surveillance audit. |
| 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 | Not in scope for the 2015 surveillance audit. |
| 8. Landowner Outreach | SFI Table of Indicators, management review records, WCSIC Wood Producer Information Package, interviews with wood procurement staff and landowners on a sample of procurement sites. |
| 9. Use of Qualified Resource and Logging Professionals | Not in scope for the 2015 surveillance audit. |
| 10. Adherence to Best Management Practices | Purchase wood records, WCSIC wood purchase monitoring report, staff interviews, inspection of a sample of purchase wood blocks. |



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.

Findings: 2015 Conifex Timber Inc. SFI Surveillance Audit Page 5

| SFI Objective # | Key Evidence of Conformity |
|---|---|
| 11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and Major Tropical 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. |
| 14. 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. |
| 15. Forestry Research & Technology | Not in scope for the 2015 surveillance audit. |
| 16. Training and Education | SFI Table of Indicators, EMS and SFI awareness training materials and records, interviews with a sample of staff and contractor employees. |
| 17. Community Involvement in the Practice of Sustainable Forestry | Not in scope for the 2015 surveillance audit. |
| 18. Public Land Management Responsibilities | SFI Table of Indicators, FSPs and related agency, stakeholder and First Nations referral correspondence, review of site plans, review of selected stakeholder and First Nations consultation records, responses to questionnaires sent to local First Nations, inspection of a sample of field sites. |
| 19. Communications and Public Reporting | Not in scope for the 2015 surveillance audit. |
| 20. 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 involved an on-site assessment of the Company’s sustainable forest management (SFM) system at the Mackenzie woodlands operation, and included visits to a variety of field sites (8 roads, 7 cutblocks, 8 silviculture sites and 3 wood procurement sites) to evaluate conformance with the requirements of the SFI standard.

Good Practices

A number of good practices were identified during the course of the audit, including some that related to SFI requirements and others that related to the requirements of the PEFC CoC standard. Those that related to SFI requirements included:

- SFI Objective 1 (Forest Management Planning): The Company is starting to move its harvesting operations further up Williston Lake to help take some of the pressure off of the southern portion of the Timber Supply Area (TSA) while working towards meeting the geographic partition included in the most recent Mackenzie TSA AAC decision. (Mackenzie)
- SFI Objective 4 (Conservation of Biological Diversity): Interviews with Fort St. James staff and review of the ITS (Incident Tracking System) Issues and Actions report found that the Company has developed an innovative action plan which includes the development of BMPs and due diligence processes to help protect migratory birds. (Fort St. James)
- SFI Objective 4 (Conservation of Biological Diversity): Inspection of the Mackenzie sawmill site found that the Company had constructed 4 artificial osprey nesting poles near the sawmill to provide nesting habitat while reducing the risk of power outages related to ospreys constructing nests on power poles. (Mackenzie)
- SFI Objective 16 (Training and Education): Conifex provides a comprehensive awareness training program covering Sustainable Forest Management, Species at Risk, Invasive Plants and Chain of Custody for its staff and EMS and Safety training for its contractors, including an “Operator Knowledge Assessment” questionnaire. Interviews with staff and contractor crews, indicated a good understanding of EMS processes, including SAR identification. (Fort St. James)

Follow-up on Findings from Previous Audits

At the time of this assessment there was 1 open non-conformities from previous external SFI audits that required follow-up by the audit team. This finding related to fuel management issues identified at the Mackenzie operation. No recurrence of the issues that gave rise to this finding were noted during the inspection of a number of active sites at the Fort St. James operation. However, as no field site visits were made to the Mackenzie operation in 2015, this finding remains open pending a field visit to the operation in 2016.

Areas of Nonconformance

The following one minor non-conformity was identified during the 2015 Conifex audit in relation to the requirements of the SFI 2010-2014 standard:

- SFI Performance Measure 14.1 requires Program Participants to take appropriate steps to comply with applicable federal, provincial, state and local forestry and related social and environmental laws and regulations. Section 79(2) of the FPPR requires that a person who is authorized in respect of a road must maintain the road, including bridges, culverts, fords and other structures associated with the road. However, although the Mackenzie operation inspects roads and bridges in areas where it has active operations, it does not maintain adequate records to track all of its road and bridge maintenance responsibilities, nor does it currently have an action plan in place to address this deficiency.



The Company is starting to move its harvesting operations further up Williston Lake to help take some of the pressure off of the southern portion of the Timber Supply Area (TSA) while working towards meeting the geographic partition included in the most recent Mackenzie TSA AAC decision.

Opportunities for Improvement

No opportunities for improvement were identified during the 2015 Conifex audit in relation to the requirements of the SFI standard.

Findings against the SFI 2015-2019 Standards

The following findings were identified in relation to the incremental requirements of the SFI 2015-2019 Forest management and Fibre Sourcing standards which the Company is required to be in conformance with by December 31, 2015:

- SFI Fibre Sourcing Performance Measure 2.1 requires that participants use written agreements for the purchase of raw material sourced directly from the forest that include provisions requiring the use of best management practices (BMPs). However, although the current Conifex purchase wood contract template includes a requirement to adhere to all applicable environmental and social laws, it does not currently include a requirement to use BMPs during forest operations. (Corporate)
- SFI Fibre Sourcing Performance Measure 6.1, indicator 5 requires that Program Participants have written agreements for the use of Qualified Logging Professionals (QLPs) and/or Certified Logging Professionals (CLPs) (where available) and/or wood producers that have completed training programs and are recognized as QLPs. However, the current Conifex purchase wood contract template does not include a requirement for applicable wood producers to use QLPs (where available) during forest operations. (Corporate)
- SFI Forest Management Performance Measure 11.1 includes a requirement related to the assignment and understanding of roles and responsibilities for achieving the SFI 2015-2019 forest management standard objectives. A similar requirement exists under Performance Measure 6.1 of the SFI 2015-2019 fibre sourcing standard. However, the Conifex SFI 2010-2014 Table of Indicators has yet to be revised to: (1) address the incremental changes associated with the 2015-2019 SFI forest management and fibre sourcing standards, and (2) identify staff roles and responsibilities in relation to the revised SFI standards.
- The Company has developed a number of documents (e.g., Conifex SFI 2010-2014 Table of Indicators, EMS manual, management review minutes template, etc.) that it uses as the basis for meeting various requirements of the SFI 2010-2014 standard. However, these documents have yet to be revised to address all of the requirements of the 2015-2019 SFI forest management and fibre sourcing standards.
- SFI Forest Management Performance Measure 11.1/Fibre Sourcing Performance Measure 6.1 include requirements for staff and contractor training regarding their roles and responsibilities under the SFI program. However, although the Company has previously provided its staff and contractors with training relative to the requirements of SFI 2010-2014, it has yet to do so in relation to the requirements of the SFI 2015-2019 forest management and fibre sourcing standards.
- SFI Forest Management Performance Measure 8.1 includes a requirement for Program Participants to develop a written policy acknowledging a commitment to recognize and respect the rights of First Nations and to provide that policy to the local First Nations with an interest in the management unit. However, the Company has yet to develop such a policy and provide it to local First Nations.



The 2015 Conifex SFI surveillance audit included an assessment of the Company's performance in relation to several SFI requirements, including those related to the protection of riparian values (streams, lakes and wetlands) during harvesting and road construction. In the area depicted above the Company was found to have retained a riparian buffer adjacent to a non fish-bearing stream,

- SFI Forest Management Performance Measure 11.1 includes a requirement for Program Participants to have written agreements with logging contractors that require them to employ Qualified Logging Professionals (QLPs). Review of a sample logging contract found that the Company's current logging contracts require contractors to implement Conifex's EMS (which include training requirements that meet the WCSIC definition of a QLP). They also require contractors to implement BMPs and comply with applicable laws and regulations. However, the Company's current contracts are not explicit regarding training requirements or the use of QLPs.

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 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.

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.
- The Mackenzie operation does not currently have a planning forester. This creates a risk that certain requirements that might otherwise be handled by a person in this position could slip through the cracks and generate a non-conformity with one or more requirements of the SFI 2015-2019 standards.
- Progress towards the completion of a new TSR (Timber Supply Review) for the Prince George TSA.



The 2015 audit found that the Company continues to meet SFI and regulatory requirements for the reforestation of harvested sites.

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