



REPORT Forest Certification



Daishowa-Marubeni International Ltd.—Peace River Pulp Division Woodlands & Embedded Conifer Quotas—September, 2015

In September 2015, an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI recertification audit of Daishowa-Marubeni International Ltd.'s (DMI's) Peace River Pulp Division Woodlands operations and the harvest and silviculture operations of embedded conifer quota holders on DMI Forest Management Areas (FMA) 0900044 and 0900045 and the DMI fibre procurement operations against the requirements of the 2015-2019 edition of the Sustainable Forestry Initiative® (SFI) standard. This Certification Summary Report provides an overview of the process and KPMG's findings.

Description of DMI - Peace River Pulp Division Woodlands and Embedded Conifer Quota Holder Operations

DMI Peace River Pulp Division (PRPD) Crown tenures encompass an area of over two million hectares of boreal forest located in north western Alberta all of which are covered under SFI Forest Management and Fiber Sourcing certificates issued by KPMG PRI that are valid until October 31, 2018. DMI PRPD manages three Crown tenures: Forest Management Agreements (FMA) 0900044 and 0900045 and deciduous quota in Deciduous Timber Allocation (DTA) P200001. In addition, the following companies also have embedded quotas within the DMI FMAs:

- Boucher Bros. Lumber - Coniferous Timber Quota (CTQ) P210001 in FMA 0900044;
- Canfor Grande Prairie - CTQ P190001 in FMA 0900045; and
- Zavisha Sawmills Ltd. - CTQ P190002 in FMA 0900045.

Since 2005 DMI has also maintained a certified ISO 14001 EMS; the embedded conifer quota holders likewise maintain EMS which are certified by KPMG PRI.

The woodlands operations are located in the northwestern part of Alberta and northeastern British Columbia in the Boreal Plains ecozone with the majority of the stands located in the following ecoregions:

- Clear Hills Upland
- Peace Lowland
- Mid-Boreal Uplands
- Wabasca Lowland

The forest types are deciduous and mixed deciduous and conifer with the main commercial species harvested by DMI PRPD being aspen and black poplar. Because of the stand compositions and uniform ages, these stands are managed using even-aged silvicultural systems. The stands are harvested and planned for natural regeneration to deciduous.

As the FMA holder DMI has responsibility for submission of the Detailed Forest Management Plan (which includes mid and long term harvest and silviculture planning, inventory and growth and yield modeling), development of the Operating Ground Rules, public and First Nations consultation and annual reporting to Alberta Environment and Parks regarding volumes and area harvested (by species and forest



Peace River Pulp Division

cover type) and the results of reforestation. Embedded quota holders must conform to the Detailed Forest Management Plan (DFMP) and Operating Ground Rules (OGR) as a condition of their quota licenses.

Long term sustainable harvest levels are determined through the strategic planning process to develop the DFMP which is required to be completed every 10 years. DMI’s periodic allowable cut (PAC) for the Peace River Pulp Division woodlands is approximately 12.5 million m³. Harvest volumes are tracked and reported by government and balanced over the five year periodic cut control period for each licence. The harvest levels were below the allowable cut.

Description of Daishowa-Marubeni International Ltd. Peace River Pulp Division Operations

DMI PRPD operates a pulpmill near Peace River, Alberta. This pulp mill produces softwood and hardwood northern bleached kraft pulp for the domestic, U.S and international markets. The pulp mill sources hardwood fibre through the operation’s long term tenures (FMAs and quotas) with the Provincial government, and through the purchase of fibre from other sources in northwestern Alberta. Softwood chips are obtained through chip supply agreements with local sawmills.

The pulpmill consumes approximately 990,000 m³ of deciduous chips and 995,000 m³ of coniferous chips annually. Of the deciduous chips, 30% is obtained through the fibre procurement program, while 99% of the coniferous chips is purchased. The hardwood fibre is purchased as stumpage from private land owners and DMI develops the plans and harvests these stands using its own logging contractors and applying the Company’s environmental management system to these operations. Softwood fibre is purchased as chips from sawmills. The pulpmill produces approximately 440,000 ADMT of bleached softwood and hardwood pulps annually.

DMI participates in the WCSIC Purchase Wood Monitoring Program by completing and submitting EMS inspections on its purchase wood blocks.

Audit Scope

The audit was conducted against the requirements of the 2015-2019 edition of the SFI standard, and incorporated an assessment against the SFI program objectives for:

- Forest management planning;
- Forest health and productivity;
- Protection and maintenance of water resources;
- Conservation of biological diversity;
- Management of visual quality and recreation benefits;
- Protection of special sites;
- Efficient use of fibre resources;
- Recognize and respect Indigenous Peoples’ rights;
- Legal and regulatory compliance;



DMI operates a pulp mill located near Peace River, Alberta.

DMI PRPD Woodlands Field Audit Sample Size	
Roads	34
Harvesting	34
Silviculture	11
Wood procurement	2
Camps	3

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- Forestry research, science and technology;
- Training and education;
- Community involvement and landowner outreach;
- Public land management responsibilities;
- Communications and public reporting, and;
- Management review and continual improvement.

The scope of the 2015 SFI recertification audit of DMI’s Peace River Pulp Division woodlands operations included all of the woodlands operations noted above including activities of quota holders on the DMI FMAs, as well as fibre procurement activities for the Peace River pulp mill.

The Audit

- **Audit Team** – The audit was conducted by Sylvi Holmsen, RPF (BC), EP (EMSLA), Yurgen Menninga, RPF (BC), EP(EMSLA), and Neil MacEachern, RPF (BC), EP(EMSLA). All three auditors hold permits to practice issued by the College of Alberta Professional Foresters. The three team members have conducted numerous forest management audits in BC and Alberta under a variety of standards including SFI, ISO 14001 and CSA Z809.
- **SFI Recertification Audit** – The audit involved three days off-site review of the documents supporting the sustainable forest management system and approximately nine auditor days on-site from September 14-18, 2015 to assess all elements of the Company’s SFI program, and included visits to several field sites to evaluate conformance with the requirements of the current SFI standards.
- **DMI PRPD Woodlands Operations SFI Program Representative** – Lee Rueb, RPFT served as DMI’s SFI program representative during the audit.
- **Multi-site Audit Sampling Approach** – Daishowa-Marubeni International Ltd.—Peace River Pulp Division Woodlands holds a multi-site SFI certificate covering the Company’s FMA operations and those of their embedded quota holders. During this audit, field visits addressing forest management and fibre sourcing were made to DMI operations. In addition, the embedded conifer quota holders maintain EMS which are certified by KPMG PRI. The sample size and selection was consistent with IAF MD-1. The audit sample was selected based on geographic distribution, previous audit findings, the need for an element of randomness and the timing of the last external audit at each site.
- **Field Audit Sample** – The audit at each field site sampled involved document and record reviews, interviews and inspections of roads, harvesting practices, silviculture activities and obligations and procurement sites. The site selection 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 as well as the need to sample a geographic distribution of activities, to include active sites and to enable an assessment of actions on previously identified audit findings..

DMI PRPD Woodlands SFI Certification Audit Findings	
Major non-conformities	0
Minor non-conformities	2
Opportunities for improvement	11

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.

Use of Substitute Indicators

No substitute SFI indicators were used during the audit.

Audit Objectives

The objectives of the 2015 SFI audit were to evaluate the Sustainable Forest Management (SFM) system at Daishowa-Marubeni International to:

- Determine the extent to which DMI and the embedded conifer quota conform with the requirements of the 2015-2019 versions of the SFI Forest Management and Fiber Sourcing standards .
- 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 DMI and the embedded conifer quota holders meet the objectives of SFI 2015-2019.

Audit Conclusions

The audit found that:

- The Company’s Peace River Pulp Division’s Woodlands Operations meet the requirements of the 2015-2019 version of the SFI standard in all material respects. Likewise, the forestland management operations of the embedded conifer quota holders meet the requirements of the 2015-2019 version of the SFI standard for the quotas listed in the Scope of Certification. As a result, a decision has been made to grant certification to the SFI standard for the next 3 years. DMI—Peace River Pulp Division’s Woodlands SFI certification is valid until October 31, 2018.

Table 1. Evidence of Conformity with the SFI 2015-2019 Forest Management Standard

SFI Forest Management Objective #	Sources of Key Evidence of Conformity
1. Forest Management Planning	Detailed Forest Management Plans (DFMPs), Annual Operating Plans (AOPs), Ground Rules, Environmental Management System (EMS) (e.g., monitoring and inspections), Final Harvest Plans, ArcGIS.
2. Forest Health and Productivity	DFMP, Ground Rules and Amendments, ARIS report, EMS (completed Block Layout Summary Sheets, various Standard Operating Procedures (SOPs), SFM Plan, operating instructions and operating guidelines, Interviews with key personnel and field inspections.



The audit examined road construction and maintenance, harvesting, silviculture, log and log procurement activities at the operations.



DMI manages for biodiversity at the stand level by retaining clumps of trees and larger patches.

Table 1. Evidence of Conformity with the SFI 2015-2019 Forest Management Standard (cont'd)

SFI Forest Management Objective #	Sources of Key Evidence of Conformity
3. Protection and Maintenance of Water Resources	DFMPs, Ground Rules, EMS, Review of harvest information maps and completed pre-work and inspection forms for blocks, roads and silviculture units field reviewed, Interviews with key personnel and (during field audit of active operations) sample of contractors, Field inspections of riparian areas and watercourse crossings.
4. Conservation of Biological Diversity	EMEND research project, HCVF Analysis, DFMPs and Amendments, Ground Rules and Amendments, EMS (SOPs pertaining to heritage resources and planning pre-work), SFM Plan, ArcGIS, Interviews with key personnel and field inspections.
5. Management of Visual Quality and Recreational Benefits	DFMPs, AOPs, Ground Rules, High aesthetic value ArcGIS layer.
6. Protection of Special Sites	EMEND research project, HCVF Analysis, DFMPs and Amendments, Ground Rules and Amendments, EMS (SOPs pertaining to heritage resources and planning pre-work), SFM Plan, ArcGIS, interviews with key personnel and field inspections.
7. Efficient Use of Fibre Resources	EMS, field inspections
8. Recognize and Respect Indigenous Peoples' Rights	DMI Corporate Aboriginal Policy, records of consultation with local First Nations, pre-audit questionnaire responses, interviews with DMI staff.
9. Legal and Regulatory Compliance	EMS (SOPs pertaining to legal and other requirements, completed incident reports), DATS database, internal systems audit report, internal compliance audit report.
10. Forestry Research, Science & Technology	Research records and reports, interviews with DMI staff.
11. Training and Education	Employee and contractor training records, Interviews with sample of staff and (during field audit of active operations) sample of contractors.



A wide variety of wildlife species can be found on DMI's operating areas.



Table 1. Evidence of Conformity with the SFI 2015-2019 Forest Management Standard (cont'd)

SFI Forest Management Objective #	Sources of Key Evidence of Conformity
12. Community Involvement and Landowner Outreach	Public outreach and consultation records, Purchase Wood Agreements, Woodlot Management Guide, Western Canada SFI Implementation Committee (WCSIC) website, SFM Plan, AOPs, Interviews with key staff and (during field audit of active operations) sample of contractors and field inspection of a sample of purchase sites.
13. Public Land Management Responsibilities	Public stakeholder and First Nations communication and correspondence records, PAC meeting minutes, DMI Peace River public website, Interviews with key personnel.
14. Communications and Public Reporting	Sample of records, reports and databases relating to the information needed for the SFI annual progress report, 2014 SFI public summary report, SFI website.
15. Management Review and Continual Improvement	Management review meeting minutes and agenda, internal audit records.



A variety of block shapes, sizes and on-block retention of individual trees and patches maintains structural diversity and the block and landscape level.

Table 2. Evidence of Conformity with the SFI 2015-2019 Fiber Sourcing Standard

The primary sources of evidence assessed to determine conformity with the SFI Fiber Sourcing Standard are presented in Table 2 below.

Table 2. Evidence of Conformity with the SFI 2015-2019 Fiber Sourcing Standard

SFI Fiber Sourcing Objective #	Key Evidence of Conformity
1. Biodiversity in Fiber Sourcing	Records of involvement in various projects related to the conservation of biodiversity (e.g. CBFA, EMEND, etc.), interviews with procurement and other DMI staff.
2. Adherence to Best Management Practices	Purchase Wood Agreements, contractor training records, SFM Plan, EMS (SOPs pertaining to soil conservation and stop work policy), Interviews with key staff and (during field audit of active operations) sample of contractors, and field inspection of a sample of purchase sites.

Table 2. Evidence of Conformity with the SFI 2015-2019 Fiber Sourcing Standard (cont'd)

SFI Fiber Sourcing Objective #	Key Evidence of Conformity
3. Use of Qualified Resource and Qualified Logging Professionals	List of Qualified Resource and Logging Professionals, interviews with procurement staff, contractor training records and field inspection of a sample of purchase sites.
4. Legal and Regulatory Compliance	EMS (SOPs pertaining to legal and other requirements, completed incident reports), DATS database, internal systems audit report, internal compliance audit report.
5. Forestry Research, Science and Technology	Research records and reports, interviews with DMI staff.
6. Training and Education	SFM Plan, employee and contractor training records, Interviews with sample of staff and (during field audit of active operations) sample of contractors.
7. Community Involvement and Landowner Outreach	Public outreach and consultation records, Purchase Wood Agreements, Woodlot Management Guide, Western Canada SFI Implementation Committee (WCSIC) website, SFM Plan, AOPs, Interviews with key staff and (during field audit of active operations) sample of contractors and field inspection of a sample of purchase sites.
8. Public Land Management Responsibilities	Public stakeholder and First Nations communication and correspondence records, PAC meeting minutes, DMI Peace River public website, Interviews with key personnel.
9. Communications and Public Reporting	Sample of records, reports and databases relating to the information needed for the SFI annual progress report, 2014 SFI public summary report, SFI website.
10. Management Review and Continual Improvement	Management review meeting minutes and agenda, internal audit records.
11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas	NA. No fibre is sourced from outside North America.



DMI's pulpmill sources fibre from company operations and through the purchase of fibre from other sources in north-western Alberta. Most fibre is delivered to the pulpmill as chips and most of DMI's blocks include on-site chipping of hardwood. A small amount of fibre is chipped at satellite yards and then delivered to the mill. Residual chips are also obtained from local sawmills.



Table 2. Evidence of Conformity with the SFI 2015-2019 Fiber Sourcing Standard (cont'd)

SFI Fiber Sourcing Objective #	Key Evidence of Conformity
12. Avoidance of Controversial Sources Including Illegal Logging	NA. No fibre is sourced from outside North America.
13. Avoidance of Controversial Sources Including Fibre Sourced from Areas without Effective Social Laws	NA. No fibre is sourced from outside North America.

Good Practices

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

- SFI FM Objective 3 and FS Objective 4 (water quality, compliance) – One of DMI’s contractors demonstrated well organized documentation of the EMS and health and safety information and all crews had easy access to the documentation, including MSDSs and training records, through the use of tablets that were available in both the camp and the shop van.
- SFI FS Objective 7 (adherence to BMPs) – DMI uses DMI logging contractors to harvest purchased wood and implements the company EMS, including pre-works, supervision and inspections by DMI staff, on these purchases.
- SFI FM Objective 8 (First Nations) – Canfor Grande Prairie recently sent four staff to a three day ‘cultural camp’ hosted by the Aseniwuche Winewak First Nation where perspectives were gained on culture, traditional use, medicinal plants, and sessions with various band members and elders.
- SFI FM Objective 12 and FS Objective 7 (community involvement) – DMI continues to have a level of community involvement and public outreach that is well beyond other companies
- SFI FM Objectives 2, 3, 7 (forest productivity, water quality, utilization) – At active cutblocks, rather than burning harvest waste such as hog from the chippers, DMI crews disperse it throughout the block area which increases soil productivity through nutrient inputs, and decreases emissions to air due to smoke.

Follow-up on Findings from Previous Audits

The audit found that the company had made adequate progress towards addressing the previous finding of non conformity which is now closed.



Waste wood, such as hog, from on-block chipping is dispersed on the block to reduce the need for burning debris piles and to return nutrients to the soil. This practice reduces emissions to the air and maintains soil productivity.

New Areas of Nonconformance

Two minor non-conformities were identified during the SFI re-certification audit of the DMI Peace River Pulp Division Woodlands and embedded conifer quotas. These included:

- SFI FM/FS Objective 11/6 (Qualified Logging Professionals) — The SFI standards require the organization to ensure that personnel and contractors are competent to fulfill their responsibilities under the SFI standards. Assessment of the embedded quota holders against the SFI indicators related to these objectives identified the following weaknesses:
 - Canfor had not documented a statement of commitment to the SFI standards.
 - Canfor, Zavisha, and Boucher do not have written agreements for the use of qualified logging professionals or wood producers that have completed training and are recognized as qualified loggers.

- SFI FM/FS Objective 15/10 (Management Review) — The SFI Standards require that the organization establish and maintain a process to review the organization’s management system and performance. These requirements are addressed through the Company’s environmental management system. However, the audit noted that:
 - Although, the procedure requires the superintendents to participate in the quarterly management review, the review takes place with the Operating Committee which does not include the superintendents, and
 - The minutes from the quarterly meetings do not clearly identify decisions or actions related to changes to elements of the EMS or the SFMS, or review of performance in relation to the SFI Fiber Sourcing standard and decisions or actions taken.

The Company’s approved corrective action plans to address the non-conformities identified during the audit are to:

- Work with the quota holders to ensure that commitments and agreements are adequately documented, and
- Revise the management review process and template to ensure that the the superintendents participate in the management review and all required items are included in the review.

Opportunities for Improvement

A total of 11 new opportunities for improvement were also identified during the audit. The key opportunities noted during the audit included:

- SFI FS Objective 7 (SFI Wood Producer Information Package) – The audit identified an opportunity to improve the communication of information regarding how wood suppliers and landowners may raise concerns either through DMI or through WCSIC.



The stands that DMI harvests are composed of primarily deciduous species which are used in the Company’s Peace River Pulp mill. The softwood component is utilized by the embedded quota holders who deliver the logs to their sawmills in the area.



The audit examined DMI reforestation activities and noted that stands are naturally reforested with ecologically appropriate species.

- SFI FS Objectives 2, 4, 7 (SFI Manual) – While DMI has the SFI Manual which provides the linkage between the SFI standards and DMI’s documentation and processes, there is an opportunity to improve the consistency between the descriptions in the manual and DMI’s actual processes.
- SFI FS Objective 2 (Log Purchase Program) – The audit identified an opportunity to improve the log purchase program by ensuring the purchase agreements address all of the requirements in the standard such as the use of best management practices.
- SFI FM/FS Objectives 11/6 (Qualified Logging Professionals) – The audit identified an opportunity to clarify logging contract requirements to ensure that the purchase agreements and logging contracts address all of the requirements in the standards such as the requirement for qualified logging professionals and the use of best management practices.
- SFI FM/FS Objectives 15/10 (Management review) – The audit identified opportunities to improve the management review process and associated documentation to ensure that the process is clearly described.
- SFI FM/FS Objectives 4/ (Species at Risk) – The audit identified opportunities to clarify the requirements of the Caribou Plan related to recording information related to vehicles travelling in the caribou zone.
- SFI FM Objective 2 (Forest Productivity) – The SFI Forest Management Standard requires that program participants implement forest management practices to protect and maintain forest and soil productivity, including ensuring road construction and skidding layout minimize impacts to soil productivity and water quality. However, on the active construction site of the Hawk Hills Spur Road, none of the operators interviewed nor the supervisor was in possession of a map of the planned construction, which indicates the location of the road line and culvert placement.
- SFI FM Objectives 2, 9 (Forest Productivity) – DMI outsources various database functions to Silvicom, and the following opportunities for improvement were noted:
 - Silvicom’s Silviculture Planner is used to maintain silviculture records. However, some of the silviculture data requires a thorough review and cleaning in order to generate correct reports, which drive silviculture activities such as planting, surveying etc, as well as government reporting into ARIS.
 - Silvicom’s Harvest Planner has been in development for some time and has yet to be implemented. Once in place it will link silviculture and planning information in the underlying database.
- SFI FM Objectives 2, 3, 4, 5, 6, 8 (High Conservation Value Forests) – The audit identified an opportunity for DMI to implement the High Conservation Value Forests manual, which would demonstrate due diligence in addressing many SFI FM values, such as species at risk, biodiversity, etc. and would provide a useful operational control for most of the ISO 14001 significant environmental aspects (which overlap closely with the SFI FM values).



To maintain site productivity, on-block roads are rolled back after the completion of harvesting.

- SFI FM Objective 11 (Training) – The field audit identified an opportunity to improve contractor awareness of the EMS and SFI, particularly in relation to ensuring that new workers understand key elements of the EMS.

Follow Up Items for the next Audit

The certification audit noted that, although DMI followed regulatory consultation processes and forwarded GDP information to the First Nations in the area, some First Nations expressed concern regarding DMI’s consultation processes. These concerns will be followed up further during the next surveillance audit.

Action Conclusion

The audit found that Daishowa-Marubeni International’s SFM system:

- Was in full conformance with the requirements of the SFI 2015-2019 requirements included within 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 within the DMI’s sustainable forest management policy, provided that the system continues to be implemented and maintained as required.

As a result, a decision has been reached by the lead auditor/audit team to recommend that Daishowa-Marubeni International be certified to the SFI 2015-2019 Forest Management and Fiber Sourcing standards.

Corrective Action Plans

Corrective action plans designed to address the root causes of the non-conformities identified during the audit have been developed by DMI 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.



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