

REPORT Forest Certification



Canyon Lumber Company Inc. —2016 SFI Surveillance Audit

From May 16-17, 2016 an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI surveillance audit of Canyon Lumber Company Inc. (Canyon)'s fibre procurement activities against the requirements of the 2015-2019 Sustainable Forestry Initiative® (SFI) sourcing standards. This Certification Summary Report provides an overview of the process and KPMG's findings.

Description of Canyon Lumber Co. Inc.'s Manufacturing Facilities and Fibre Sourcing Program

Canyon Lumber operates a lumber mill in Everett, Washington which has manufactured Douglas-fir specialty products since 1907. Canyon Lumber does not own or manage any timberlands operations. One hundred percent of the delivered logs sorted specifically for the mill are procured from suppliers located in Washington State or British Columbia. Wood purchases are made from private suppliers and landowners, the Washington State Department of Natural Resources (WA DNR) or the US Forest Service. Canyon has recently begun purchasing WA DNR timber sales for which it directly hires trained loggers to carry out harvesting, hauling and any associated road building operations.

Canyon Lumber Co. Inc. participates in the Washington SIC Purchase Wood Monitoring Program by completing risk assessments for all wood purchases and purchase wood inspections as necessary. The results are then collated by Washington SIC (of which Canyon Lumber Co. Inc. is a member) in order to identify trends in performance and opportunities for improvement.

Audit Scope

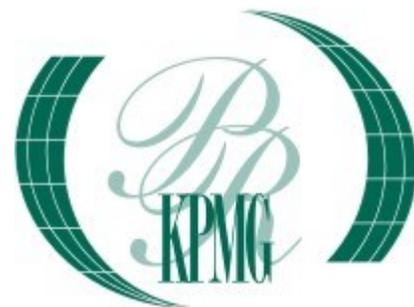
The audit was conducted against the requirements of the 2015-2019 edition of the SFI fibre sourcing standards, and incorporated an assessment against the SFI program objectives for:

- Biodiversity in Fibre Sourcing
- Adherence to Best Management Practices
- Legal and Regulatory Compliance
- Training and Education
- Public Land Management Responsibilities
- Management Review and Continual Improvement
- Avoidance of Controversial Sources Including Illegal Logging

The scope of the 2016 SFI surveillance audit of Canyon Lumber Co. Inc.'s operations included fibre procurement activities for the Everett sawmill.

The Audit

- **Audit Team** – The 2016 surveillance audit was conducted by Mr. Neil MacEachern, MSc, RPF. Mr. MacEachern is a senior assessor at KPMG PRI. He has conducted numerous forest management audits under a variety of standards including SFI, FSC, ISO 14001, and CSA Z809 across North America.



- **2016 SFI Surveillance Audit** – The audit involved an on-site assessment of all elements of the Company’s SFI program, and included visits to several field sites (2 roads, 1 cutblock, and 1 wood procurement sites) to evaluate conformance with the requirements of the current SFI forest management and fibre sourcing standards. The 2016 Canyon Lumber Co. Inc. audit took a total of 2 auditor days to complete, both of which was spent on-site at the operations included in the audit sample. 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.
- **Canyon Lumber Co. Inc.’s SFI Program Representative** – Lauren Percy served as Canyon Lumber Co. Inc.’s SFI program representative during the audit.

Use of Substitute Indicators

The audit involved an assessment of conformance against the applicable objectives, performance measures and indicators included in the 2015-2019 version of the SFI forest management and fiber sourcing standards. None of the indicators included in the SFI standards were modified or substituted for the purpose of this audit.

Audit Objectives

The objective(s) of the audit were to evaluate the sustainable forest management system at Canyon Lumber Co. Inc. to:

- Determine its conformance with the requirements of the SFI 2015-2019 fibre sourcing standard;
- Evaluate the ability of the system to ensure that Canyon Lumber Co. Inc. woodlands operations meet applicable regulatory requirements, and;
- Evaluate the effectiveness of the system in ensuring that Canyon Lumber Co. Inc. meets its specified fibre sourcing objectives.

Canyon Lumber Co. Inc. Ltd. SFI Surveillance Audit Findings

Open non-conformities from previous audits	0
New major non-conformities	0
New minor non-conformities	4
New opportunities for improvement	3

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.

Evidence of Conformity with the SFI 2015-2019 Fibre Sourcing Standard

SFI Fibre Sourcing Objective #	Key Evidence of Conformity
1. Biodiversity in Fibre Sourcing	Program to promote biodiversity in fibre sourcing, records of involvement in local or regional conservation efforts, interviews with procurement staff.
2. Adherence to Best Management Practices	Fibre sourcing policy and records of its distribution to wood producers, written fibre sourcing agreements, records of implementation of the BMP monitoring system, inspection of a sample of procurement sites.
3. Use of Qualified Resource and Qualified Logging Professionals	Not in scope for 2016 audit.
4. Legal and Regulatory Compliance	Company policies regarding regulatory compliance, procedures to ensure compliance with applicable regulatory requirements, inspection of a sample of procurement sites, interviews with regulatory agency personnel.
5. Forestry Research, Science and Technology	Not in scope for 2016 audit.
6. Training and Education	Training records, SIC minutes & resources, interviews with staff and contractors.
7. Community Involvement and Landowner Outreach	Not in scope for 2016 audit.
8. Public Land Management Responsibilities	Records of cooperative public land planning processes, records of plan referrals to local stakeholders, procurement staff interviews.
9. Communications and Public Reporting	Not in scope for 2016 audit.
10. Management Review and Continual Improvement	Management review records, internal audit and related action plans.
11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas	Not in scope for 2016 audit.
12. Avoidance of Controversial Sources Including Illegal Logging	Controversial sources risk assessment, procedures to address any significant risks that have been identified, interviews with procurement staff.
13. Avoidance of Controversial Sources Including Fibre Sourced from Areas without Effective Social Laws	Not in scope for 2016 audit.



A purchased wood site demonstrates sufficient 'green up' (adjacent regeneration), retention, and limited block size.

Follow up on Findings from Previous Audits

At the time of this assessment there were a total of 2 open non-conformities from previous Canyon Lumber Co. Inc. external SFI audits. The audit team reviewed the status of the action plans that were developed by the Company to address these previous audit findings and concluded that they: (1) had been implemented as required, and (2) were effective in addressing the root cause(s) of these non-conformities. As a result, all of the previously identified non-conformities have now been closed.

Areas of Nonconformance

A total of 4 minor non-conformities were however identified during the SFI re-certification/surveillance audit of Canyon Lumber Co. Inc.'s fibre sourcing operations. These included:

- *SFI Fibre Sourcing Objective 2 (BMPs)* – Although Canyon Lumber maintains a set of procedures to generally meet the SFI fibre sourcing objectives (its SFI Objectives document), despite changes in its practices to address the 2015-2019 standard, the guidance document has not been updated to reflect these.
- *SFI Fibre Sourcing Objective 2 (BMPs)* - The company's current log purchase agreement does not contain provisions requiring the use of best management practices
- *SFI Fibre Sourcing Objective 6 (Training and Education)* - Although all of the loggers contracted to Canyon Lumber are certified Master Loggers, there is no provision regarding the use of such loggers in its log purchase contracts.
- *SFI Fibre Sourcing Objective (Management Review and Continual Improvement)* - Although the company assesses its performance against the SFI standard, its procedures for collecting and analyzing data are not defined.

Opportunities for Improvement

A total of 3 new opportunities for improvement were also identified during the audit. The key opportunities noted during the audit included:

- *SFI Fibre Sourcing Objective 7 (Community Involvement and Landowner Outreach)* - Species at risk data included in the company's landowner outreach materials have not been updated since 2011.
- *SFI Fibre Sourcing Objective 7 (Community Involvement and Landowner Outreach)* - Logger training information included in the company's landowner outreach materials have not been updated since 2011.
- *SFI Fibre Sourcing Objective 7 (Legal and Regulatory Compliance)* - Although the company has a declaration regarding the applicable social rights defined in the standard, it does not refer to laws regarding them.



The road leading to a purchased wood site had appropriate amounts of aggregate added to stabilize and improve drainage

Audit Conclusions

The audit found that the Canyon Lumber Co. Inc.’s sustainable forest fibre sourcing program:

- Were in full conformance with the requirements of the SFI 2015-2019 forest management and fibre sourcing standards included within the scope of the audit, except where noted otherwise in this report;
- Have been effectively implemented, and;
- Are sufficient to systematically meet the commitments included within the organization’s environmental and SFM policies, provided that the systems continues to be implemented and maintained as required.

As a result, a decision has been reached by the lead auditor to recommend that Canyon Lumber Co. Inc. continue to be certified to the SFI 2015-2019 forest management and fibre 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 Canyon Lumber Co. Inc. 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 issues/potential concerns have been identified as focus areas for the next audit visit:

- Implementation of the action plans developed by Canyon Lumber Co. Inc. to address all open non-conformities identified during previous external audits.
- Guidance documents for the company’s fibre procurement program



A Canyon purchased stumpage site showing straw added to the cut bank to reduce silt deposition to the ditch.

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