

DAISHOWA-MARUBENI INTERNATIONAL LTD.

**Forest Resources Business Unit
Environmental Management /Sustainable Forest
Management System**

**(Includes CANFOR Operations: Coniferous Timber Quota CTLP
130001 in DTL P130001, FMA P130127 & FMA P130128)**

Internal Audit 2009

Interim Report



April 2009

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Forest Resources Business Unit

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Prepared for:

DAISHOWA-MARUBENI INTERNATIONAL LTD.

PO Bag 6500 Pulp Mill Site

Peace River, Alberta T8S 1V5

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CONFIDENTIAL REPORT Daishowa Marubeni International Ltd., Peace River Pulp Division, Forest Resources Business Unit - Internal EMS/SFM Audit: February 2009.

Audit Scope

Samuel Elkins, EMS Coordinator engaged Robert Volkman CEA (SFM), to conduct the annual internal audit of Peace River Pulp Division's (PRPD) Forest Resources Business Unit's environmental management system (EMS).

Audit scope: "All sustainable forest management and operational activities carried out by DMI-PRPD and its contractors on public and private lands required to supply the fibre requirements of Peace River Pulp Mill".

Audit Objective

The objective was verification that the EMS/SFM conformed to planned arrangements for environmental management; and was implemented and maintained in a manner consistent with the ISO 14001:2004, the International Standard for environmental management systems; and CSA Z809-02, Canadian Standard for sustainable forest management systems.

The focus was an assessment of:

- environmental management system requirements;
- sustainable forest management system requirements;
- progress towards addressing any outstanding non-conformities; and
- progress towards addressing opportunities-for-improvement from previous internal audits.

Audit Period

The audit period was from October 1, 2008 to February 20, 2009.

Audit Criteria

The primary criterion was the *ISO 14001:2004 Standard, (CAN) CSA Z-809:02 Standard, and Forest Resources Environmental Management System & Sustainable Forest Management Manual (version 1.4)*. This included any related documentation as described under *Chapter 15 Internal Audit Programs*.

Legal requirements and other requirements DMI FRBU subscribes was also applicable. Applicable legislation included Federal (e.g. *Fisheries Act, Species at Risk Act, and Transportation of Dangerous Goods Act*) and Provincial (e.g. *Environmental Protection & Enhancement Act, Forest & Prairie Protection Act, Forests Act*) acts and associated regulations.

Audit Team

Robert Volkman (Lead Auditor) conducted the internal audit; and is a Certified Environmental Auditor, Certified Environmental Practitioner (Canada), and a Registered Professional Forest Technologist in Alberta. He was accompanied by Samuel Elkins (auditor) during field and office assessment work.

Audit Process

The preliminary opening meeting was held February 15, 2009. The on-site portion of the internal audit was conducted from February 15 to 20, 2009. Preliminary work in formulating a sample commenced in December 2008.

The audit sample included limited file and document reviews (i.e. DMI EMS website, paper files, etc.) pertaining to the audit sample, interviews with staff, and field inspections of both active and non-active operations by ground-truthing, driving and aerial overviews.

The audit sample consisted of:

- Harvesting: 32 blocks completed out of an initial sample selection of 43 blocks (7 active blocks, 25 blocks having a status of opened, skid cleared, haul cleared, or final cleared)
 - 3 of the blocks were private land operations with the remaining blocks on crown land (7 blocks harvested under CANFOR coniferous timber quotas)
 - Sample block selection included a cross-section of dispositions including forest management areas, deciduous timber quotas, coniferous timber quotas, deciduous timber permits, and small operators
- Active chipping operations: 4 sites
- Active hog operations: 1 site
- Tree length operations: 3 sites (CANFOR operations)
- Hauling: 7 chip trucks
- Temporary campsites: 4

Twenty-five of the samples (blocks) will be reviewed in June 2009 to complete the compliance and SFM phases of the audit. This will include a review of rehabilitation/reclamation of watercourses and/or pipeline crossings, roll back of in-block roads, and ripping of chipper/landing areas for silviculture purposes.

Audit Observations

DMI continued to ensure that their EMS system is understood and their training video library continues to expand. This library is made available through the website or published copies distributed to employees and contractors (i.e. pre-trip inspection, hog fuel, chip and log trucks, and environmental management system orientation,). It was evident during interviews that employees and contractors understood their roles and responsibilities in the implementation of the system.

The system continued to be updated and it was reflected in documents and their associated revisions that have been made over the past year. A number of manuals, procedures, and checklist have undergone a review and updated to reflect current legislation and regulation.

Deficiencies identified in the last audit have been addressed and in some areas, the level of documentation and implementation of EMS policies and procedures has increased to ensure requirements of the system were met.

Training of staff and contractors continued in the organization and tools continued to be developed and implemented to ensure efficiencies were gained yet communication of the system was maintained.

DMI staff continued the assessment of existing technologies (i.e. wet areas mapping) and has implemented a number of pilot projects operationally that were being developed during the previous internal audit. These projects provided continual improvement opportunities for staff in planning and operations.

Audit Conclusions

Status of open opportunities-for-improvement from Internal Audit 2008

There were two opportunities-for-improvement (*OFI-IA-2008-01 & OFI-IA-2008-02*) noted during the 2008 audit review. An opportunity was identified with respect to Standard/Element 4.3.2 Legal & Other Requirements and DMI procedure EMSP-4.3.2 and Standard/Element 4.4.7 Emergency Preparedness and Response and DMI Forest Resources Fuel Management Field Guide.

A review of the corrective action plans and documentation provided by DMI show that the opportunities-for-improvement have been addressed. Deficiencies with Element 4.4.7 were corrected and verified. Copies of emails, checklists, and training records were provided to the auditor. Deficiencies with Element 4.3.2

were corrected and verified through DMI inspections. A copy of presentation given to contractors regarding private sewage requirements including a revision to the procedure (FR-E007) was provided to the auditor.

Major Non-Conformities

No major non-conformities noted.

Minor Non-Conformities

Three new minor non-conformities have been identified during the internal audit. These minor non-conformities were associated with Standard/Element 4.4.6 Operational controls, 4.5.1 Monitoring and measurement, and 4.3.2 Legal and other requirements.

NC-IA-2009-01 (DMI Operations)

A minor non-conformity has been identified related to Standard/Element 4.4.6 Operational control and DMI Procedure Project Supervision (FR-G002).

DMI has implemented a number of procedures to ensure that operations are carried out in such a manner that does not impact on the significant environmental aspects of their business. These procedures include start-up checklists that identify all of the key considerations that the contractor must understand regarding a particular harvesting operation. These key considerations may include understory protection, operating in non-frozen ground conditions, debris piling, and watercourse crossing installation.

The start-up meeting and subsequent checklist is the first communication between DMI and the contractor. During the documentation review of start-up meeting checklists for sample blocks, there is a lack of detailed information (i.e. FMAP 130125, DTLP 140001). Information either lacking or not provided in sufficient detail included location of operations, date completed, contractor

identified, applicable blocks, and road access. There was one instance where an additional block (FMAP 130125, Block 44) was approved and added to the harvesting schedule after the start-up meeting had been completed. No documentation was provided to show how the key considerations were communicated to the contractor. This lack of complete information and follow-up documentation makes it difficult to determine whether all the key considerations have been communicated to the contractors.

Other documentation that is lacking is in relation to approvals from Sustainable Resource Development for Temporary Field Authorization (TFA) for such activities as temporary camp sites, road access, and borrow pits. TFA documents giving approval in the associated files lacked location maps (i.e. DTLP 140001 Block 5, FMAP 130125). Pipeline crossings associated with blocks were also not easily identified (i.e. SE687255, SW587255). These situations made it difficult to determine whether the approved activities were impacting on environmental aspects identified by the organization. It also made it difficult to confirm whether the approved activities followed the TFA or pipeline agreement requirements.

On-site reviews showed procedures not being followed during an installation of a watercourse crossings resulting in a poor snow fill structure placed on a small permanent watercourse (FMAP 130125, Block 52).

Following operational control procedures established by DMI and communicating these procedures to contractors is critical to ensuring the operations remain compliant with the EMS/SFM system and legal requirements. Therefore, DMI is expected to address *NC-IA-2009-01* and it will be reassessed at the next internal audit.

NC-IA-2009-02 (DMI Operations)

A minor non-conformity has been identified related to Standard/Element 4.5.1 Monitoring and measurement and DMI Procedure Project Supervision (FR-G002).

DMI has implemented a procedure for project supervision which provides guidance to the operation supervisors when monitoring field operations. This procedure states the frequency of inspections for various activities including harvesting, temporary camps, fuel storage, etc. The frequency of inspections is based on the length of the activity and the subsequent risk to the environment (i.e. FMAP 130125, DTLP 140001).

In a number of situations, monitoring was being done on DMI blocks by a supervisor (from another company) who was not familiar with DMI procedures. This unfamiliarity led to inspections being done on an infrequent basis and in some cases when the operation had been completed for a block (DTLP 140001, Block 45).

Following the procedure for inspection frequency and supervision by DMI personnel is critical to ensuring the operations remain compliant with the EMS/SFM system and legal requirements. Therefore, DMI is expected to address *NC-IA-2009-02* and it will be reassessed at the next internal audit.

NC-IA-2009-03 (DMI Operations)

A minor non-conformity has been identified related to Standard/Element 4.3.2 Legal & Other Requirements and DMI Timber Harvest Planning and Operating Ground Rules.

One of the 2008 Annual Operating Plans (AOP) identified heavy understory in specific blocks and made a commitment to protect the understory. In the DMI

Timber Harvest Planning and Operating Ground Rules, under Section Cutblock Planning, 3.1.5 Design Considerations, point 7 states "*the company will submit a detailed block plan for sensitive sites which includes (d) areas of understory regeneration of acceptable species*" and under Harvest Design 2.0 (c) "*detailed block plans will show location & density of coniferous understory and young conifers*". DMI did not identify the location and density of the heavy understory on the detailed block plan (DTLP 530007, Block 30).

In the Operating Ground Rules, areas of understory including protection measures (i.e. identification of skid trails) shall be identified on the detailed block plan.

A detailed block plan (DTLP 160001, Block 306) was submitted for a block that was over 100 hectares in size. A requirement in the approved 2008 General Development Plan (GDP) and identified in the final AOP. During the harvesting operations, road changes were made to the in-block road system which included establishing watercourse crossings that were not previously identified in the approved plan. Under DMI Procedure Self Reporting Standard (FR-G007), which was included in the approved 2008 GDP (Appendix 2), a formal amendment is required when "*any roading changes that will impact watercourses or will result in additional watercourse crossings*". DMI should have submitted a new detailed block plan identifying the roading changes and the location of the watercourse crossings.

In both situations, the harvesting operations did not result in adverse impacts to the features requiring protection. However, all legal requirements for operations were required to be met. Therefore, DMI is expected to address **NC-IA-2009-03** and it will be reassessed at the next internal audit.

Opportunities-for-Improvement

There are two new opportunities-for-improvement (*OFI-IA-2009-01 & OFI-IA-2009-02*) noted during the audit review. An opportunity-for-improvement has been identified with respect to Standard/Element 4.4.7 Emergency Preparedness and Response and DMI Forest Resources Fuel Management Field Guide (version 1.4). This OFI is related to DMI operations.

An opportunity-for-improvement has been identified with respect to Standard/Element 4.3.2 Legal & Other Requirements. This OFI is related to Canfor operations.

OFI-IA-2009-01 (DMI Operations)

An opportunity-for-improvement has been identified related to Standard/Element 4.4.7 Emergency preparedness and response and DMI Forest Resources Fuel Management Field Guide (version 1.4).

During the field portion of the audit, inspections were conducted on temporary fuel storage sites, shop vans/trailers, chip trucks, and portable fuel storage tanks located in pick-ups or shop trucks. Overall, there was a high level of conformity to the Standard and to DMI internal procedures (i.e. Forest Resources Fuel Management Field Guide version 1.4). Deficiencies were noted by the auditor relating to both legal and DMI practice requirements and are listed below:

- Absence of fire extinguishers (3 instances relating to portable fuel storage tanks in pick-ups);
- Fire extinguishers that were not properly charged (3 instances relating to chip trucks);
- Spill kits (3 instances relating to chip truck & pick-up truck; the chip truck lacked spill pads in kit and the pick-ups had portable tanks requiring a small spill kit);

- Absence of appropriate tank certification on a portable tank (2 instances relating to chipper van and portable tanks in pick-up); and
- Absence of TDG safety markings (2 instances relating to chipper van and portable tanks in pick-ups).

The ability to respond to an emergency requires that all equipment be present, appropriate, and functioning. As most of the instances noted above were in areas or locations where other resources were readily available, it was determined that an OFI would be appropriate to draw attention to these deficiencies. With the exception of the chip trucks, all other deficiencies were with a new contractor (1st year of operation with DMI) and were at the temporary campsite location. Therefore, DMI is expected to address ***OFI-IA-2009-01*** and it will be reassessed at the next internal audit.

OFI-IA-2009-02 (CANFOR Operations)

An opportunity-for-improvement has been identified related to Standard/Element 4.3.2 Legal and other requirements and DMI Forest Resources Fuel Management Field Guide (version 1.4).

A temporary fuel storage site was set up within 100 meters of a non-permanent watercourse. The 1994 Alberta Harvest Planning and Operating Ground Rules, Section 3.5 Campsites and Miscellaneous Facilities Standard 7 states that a temporary storage site for petroleum and chemical products shall be located a minimum of 100 m from any watercourse and in an area that does not allow a direct flow into a watercourse.

The storage facility (FMAP 130128, Block 498) consisted of certified double-walled tanks within secondary containment and the appropriate emergency preparedness equipment was on site. The closest distance to a non-permanent watercourse was approximately 85 meters and in an area where direct flow

would not occur. The auditor also identified that the site was greater than 300 meters from a permanent watercourse and greater than 100 meters from a second non-permanent watercourse.

CANFOR employees and contractors should be familiar with the Operating Ground Rule and DMI Fuel Management Guide requirements regarding temporary fuel storage.

As the instance noted above was in an area or location where resources were readily available, it was determined that an OFI would be appropriate to draw attention to these deficiencies. Therefore, DMI is expected to address *OFI-IA-2009-02* and it will be reassessed at the next internal audit.

Audit Summary

The FRBU utilized continual improvement processes to ensure that the EMS is not only implemented but is functioning properly. All opportunities-for-improvement identified in previous internal audits have been addressed and were closed.

The website continued to provide all employees and contractors (including their employees) with access to the most current information regarding the EMS. The use of specific manuals, guides, or procedures is used to ensure effective implementation. The addition of videos addressing various aspects of the EMS system expanded the opportunity for communication of the system.

The EMS system including policies, procedures, processes, guidelines, checklists, website, and databases was reviewed and where appropriate, updated to reflect continual improvement of the overall system.

Deficiencies were identified in this audit and non-conformities written requiring corrective action plans. The auditor found during the review that the operations on the ground (the practices) did not necessarily result in any adverse environmental impacts when procedural guidelines were not specifically followed. This is due to the knowledge and training of DMI staff and its contractors in recognizing the potential impact to environmental aspects during operations.

Operational activities were for the most part in compliance with the EMS system. Adherence to the system and its policies and procedures is critical in ensuring conformance and minimizing potential impacts to the environment.

Three new minor non-conformities (*NC-IA-2009-01, NC-IA-2009-02, & NC-IA-2009-03*) and two new opportunities-for-improvement (*OFI-IA-2009-01 & OFI-IA-2009-02*) have been identified and appropriate actions must be undertaken to avoid these minor non-conformities and opportunities-for-improvement being elevated in their severity.

Disclaimer / Statement of Limitations

This audit report was prepared exclusively for Daishowa-Marubeni International Ltd. (DMI) Peace River Pulp Division, Forest Resources Business Unit. The scope and accuracy of information, findings and recommendations contained herein is consistent with the level of effort expended and is based on:

- i) information provided by FRBU personnel; the scope of operations, activities and aspects inspected or about which information was provided;
- ii) limited on-site inspection and interviews conducted by the audit team.

Thank you for the opportunity to complete this internal EMS/SFM audit.

Please contact me if you have any questions or concerns.

Sincerely,



Robert Volkman, PMP RFT (BC&AB) CEA(SFM) CCEP