

DAISHOWA-MARUBENI INTERNATIONAL LTD.

Forest Resources Business Unit

Internal FSC CW COC Audit 2010



August 2010

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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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Prepared by:

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CONFIDENTIAL REPORT Daishowa Marubeni International Ltd., Peace River Pulp Division, Forest Resources Business Unit – FSC COC Internal Audit: January & June 2010

Audit Scope

Samuel Elkins, Continual Improvement Coordinator engaged Robert Volkman CEA (SFM), to conduct the annual internal FSC Controlled Wood & Chain of Custody audit of Peace River Pulp Division's (PRPD) Forest Resources Business Unit's FSC Controlled Wood Chain of Custody.

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 FSC CW/CoC conformed to planned arrangements for controlled wood and chain of custody requirements; and was implemented and maintained in a manner consistent with the FSC-STD-004 v2 (FSC Standard for Chain of Custody Certification) and FSC-STD-40-005 version2-1 (FSC Controlled Wood Standard).

The focus was an assessment was to determine that:

- no illegally harvested wood;
- no wood harvested in violation of traditional or civil rights;
- no wood harvested from forests in which high conservation values are threatened by management activities;
- no wood is harvested from areas being converted from forest and other wooded ecosystems to plantations and non-forest uses; and
- no wood from forests in which genetically modified trees are planted.

Audit Period

The audit period covered activities from October 1, 2009 to June 30, 2010.

Audit Criteria

The primary criterion was the FSC-STD-004 v2 (FSC Standard for Chain of Custody Certification) and FSC-STD-40-005 version2-1 (FSC Controlled Wood Standard). Other standards that supported the system were *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* and CHK-043 FSC CW CoC Internal Audit Checklist (refer to Appendix A).

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.

The auditors would categorize their findings into the following levels of conformity:

Conformity – in conformance; where the auditor finds that a practice or activity meets the policies, procedures, work instructions or the Standards (primary criteria).

Major Non-Conformity – where the auditor determines a non-conformity event(s) or condition(s) was or would have the potential to be significant. An action plan is required to address the major non-conformity and a revisit to the site may be required upon completion of the action plan to assess its effectiveness.

Minor Non-Conformity – where the auditor, upon reaching a conclusion, determines that one or more non-conformity event(s) was not considered significant. An action plan is required to address the minor non-conformity and a revisit was not required.

Opportunity-for-Improvement – where the auditor believes that there is no occurrence of non-conformity but if the practice(s) or condition(s) were to continue, it would potentially lead to a minor or major non-conformance.

Audit Team

Robert Volkman (Lead Auditor) conducted the FSC CW CoC internal audit; and is a Certified Environmental Auditor, Registered Safety Professional, Certified Environmental Practitioner (Canada), and a Registered Professional Forest Technologist in Alberta. He completed FSC external auditor training with the Rainforest Alliance in 2009. Samuel Elkins (auditor) accompanied Robert during field and office assessment work.

Audit Process

The preliminary opening meeting was held January 25, 2010. The on-site portion of the internal FSC CW CoC audit was conducted in two phases. The first phase was from January 26 to 29, 2010 in conjunction with the ISO 14001 EMS internal audit. The second phase was from June 24 to 29, 2010 in conjunction with the internal CSA SFM and regulatory compliance audit.

The internal EMS SFM audit and regulatory compliance audit were reported on in separate documents in August 2010 (refer to 2010 Internal EMS SFM & 2010 Internal Compliance Audit Report).

Audit Observations

DMI PRPD continues to invest in continual improvement as it is related to FRBU's operations and activities. This conclusion was supported through on-going engagements with internal second party auditors and third party certification auditors in the assessment of various voluntary certification schemes in environmental and sustainable forest management. These voluntary engagements continued to provide DMI with an assessment of DMI FRBU forest management planning and practices on the portions of forest landbase under their management control. It also provided senior management with a gauge of whether operational activities continued to contribute to the overall goal of sustainable forest management.

A key initiative was to provide assurance to DMI PRPD customers that the raw material that made up the product sold did not come at the expense of environment or people.

Overall, DMI FRBU continued to engage all parties affected by its operational activities in a positive manner. Examples of this work included:

- Continuation of the Public Advisory Committee and aboriginal consultation;
- Engagement with other stakeholders in the communities including contractors;
- On-going collaborative research partnerships developed with several research institutions including the Canadian Forest Service, University of Alberta, and the Boreal Research Centre; and
- The successful renewal of the Forest Management Area agreements.

Audit Conclusions

There were minor non-conformities or opportunities-for-improvement identified during the 2009 internal audit, therefore there were no open files for the auditor to review.

Major Non-Conformities from Internal FSC CW COC Audit 2010

No major non-conformities were noted.

Minor Non-Conformities from Internal FSC CW COC Audit 2010

No minor non-conformities were noted.

Opportunities-for-Improvement from Internal FSC CW COC Audit 2010

There were three new opportunities-for-improvement (***OFI-IA-2010-03, OFI-IA-2010-04 & OFI-IA-2010-05***) noted during the audit review.

An opportunity-for-improvement, ***OFI-IA-2010-03***, has been identified with Standard FSC-STD-30-010 V2-0 Part 1, Quality Management Systems, System Requirements , 1.2 *The Forest Management Enterprise shall identify the person (or position) responsible for implementing each procedure and/or work instruction.*

The manual identified the roles and responsibilities of key personnel that played a role in the implementation and monitoring of this Standard. A change in personnel had occurred as of January 1, 2010 and this change was not reflected in the roles and responsibilities or in the FSC CW & COC manual (version 1.5 dated March 16, 2009).

The personnel affected were still within the organizational business unit and the changes did not effect the overall implementation of the Standard or the continuity of business; therefore, the auditor deemed it was an opportunity-for-improvement.

An opportunity-for-improvement, **OFI-IA-2010-04**, has been identified with Standard FSC-STD-30-010 V2-0 Part 1, Quality Management Systems, Specification of Scope of Evaluation, 2.1 *The Forest Management Enterprise shall specify the Forest Management Units (FMUs) under its management.*

The FSC CW & COC manual (version 1.5 dated March 16, 2009) incorrectly identified the issuance date of the Forest Management Agreement (FMA) to DMI. The issuance date of the FMA was stated as 1989 and the manual referred to only one agreement.

However, in July of 2009, DMI entered into two new agreements with the Alberta government as the original agreement was split into two distinct Forest Management Areas, referred to as West and East, along with the FMUs' associated with each FMA. This change occurred in July 2009 and the manual should have been revised to reflect the new FMA agreements to avoid any confusion with ownership or harvest rights.

The updated FMA agreements did not result in any significant modification to the DMI managed landbase outlined in the original agreement. A comparison of the maps (refer to Appendix A) of each new FMA agreement confirmed the forest management unit area boundaries were consistent with the area boundaries in the original FMA agreement; therefore, the auditor deemed it was an opportunity-for-improvement.

An opportunity-for-improvement, **OFI-IA-2010-05**, has been identified with Standard FSC-STD-30-010 V2-0 Part 1, FSC Controlled Wood Categories, illegally harvested wood, 3.1 *All harvesting shall take place in compliance with all laws applicable to harvesting in the jurisdiction in accordance with the criteria outlined in Table 1.*

A review of the LIMS data from June 1, 2009 to January 26, 2010 showed a small number of loads were received from harvest areas prior to these areas being considered as "opened" in the Block Status Report system. The discrepancies were corrected within

a span of three days within the LIMS system. The number of loads and volume of chips represented 1% of the overall delivery to the mill yard during the period.

DMI FRBU should ensure that all deliveries entering the mill yard are identified in LIMS and the Block Status Report System. These systems have been identified as key control points in ensuring illegally harvested wood entering the supply chain; therefore, cross-referencing sources within these control system databases is paramount.

The auditor confirmed the source areas were under legal authority to harvest and no illegally harvested wood entered the mill yard during the time period reviewed; therefore, the auditor deemed it an opportunity-for-improvement.

Audit Summary

This internal CW CoC audit allowed FRBU to see where the operation may need to focus its attention when it comes to areas not previously identified as an issue.

There are no major or minor non-conformities and three opportunities-for-improvement identified during this audit.

Major non-conformities require a corrective action plan immediately; and also may require a plan to reduce any potential adverse impacts or enforcement actions.

Minor non-conformities require a corrective action plan within a reasonable time period (i.e. 30 days).

Opportunities-for-improvement do not require an action plan but if not addressed appropriately, may lead to a minor non-conformance at subsequent internal audits.

Three new opportunities-for-improvement (***OFI-IA-2010-03, OFI-IA-2010-04 & OFI-IA-2010-05***) have been identified and appropriate actions must be undertaken to avoid these opportunities-for-improvement being elevated in their severity. The auditor will assess the actions taken at the next internal audit.

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 audit. Please contact me if you have any questions or concerns.

Sincerely,



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

Appendix A
Detailed FSC CW COC Checklist (CHK-043)
(Pages 19)



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
FSC-STD-30-010 V2-0 EN Part 1: Quality Management System 1. System requirements	1.1 The Forest Management Enterprise shall have procedures and/or work instructions covering all the applicable elements specified in this standard.		Documentation: <ul style="list-style-type: none"> Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5 dated March 16, 2009 	Y	The manual provided the procedures and/or work instructions to cover all the applicable elements.	No issues noted with this specific requirement.
	1.2 The Forest Management Enterprise shall identify the person (or position) responsible for implementing each procedure and/or work instruction.		Documentation: <ul style="list-style-type: none"> Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5 dated March 16, 2009, page 10, section 3.13 Roles & Responsibilities 	N	The Continual Improvement Coordinator has been identified as the person responsible as he also holds the position of EMS Coordinator for DMI PRPD. Other DMI staff have been identified in roles of responsibility and receiving the required information. A change in personnel had occurred as of January 1, 2010.	FRBU personnel changed in January 1, 2010 and the manual had not been updated to reflect the personnel change for the Forest Resources Business Unit Leader and the Forest Resources Business Team Leader (residual sawmills). These changes need to be reflected in the manual so all staff are aware of who is responsible for procedures implementation.
	1.3 The Forest Management Enterprise shall ensure that where stakeholder consultation is required by the Forest Management Enterprise in relation to implementation of this standard, procedures for consultation					



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	include at least the following:					
	a) key stakeholders shall be identified and invited to participate in the consultation with sufficient prior notice;		<p>PAC process initiated in November 2006 for the Sustainable Forest Management Plan and DMI's aboriginal consultation process.</p> <p>Both of these processes are on-going and have been assessed under other certification schemes.</p> <p>Details related to evidence can be found in Appendix A: <i>CSA SFM Checklist 042</i> in the 2010 Internal EMS SFM audit report (August 2010).</p>	Y	<p>CSA SFM requirements under element 5.2 Interested Parties were met in an internal audit completed in 2010.</p> <p>Details related to auditor opinion can be found in Appendix A: <i>CSA SFM Checklist 042</i> in the 2010 Internal EMS SFM audit report (August 2010).</p>	No issues noted with this specific requirement.
	b) excluded groups shall be given particular attention when identifying interested or affected parties;	<p>Intent Box: The company shall identify particular groups that might be affected by forest operations and for particular reasons do not have equal opportunities to access relevant information (for example illiterate people).</p>	<p>PAC process initiated in November 2006 for the Sustainable Forest Management Plan and DMI's aboriginal consultation process.</p> <p>Both of these processes are on-going and have been assessed under other certification schemes.</p> <p>Details related to evidence can be found in Appendix A: <i>CSA SFM Checklist 042</i> in the 2010 Internal EMS SFM audit report (August 2010).</p>	Y	<p>CSA SFM requirements under element 5.2 Interested Parties were met in an internal audit completed in 2010.</p> <p>Details related to auditor opinion can be found in Appendix A: <i>CSA SFM Checklist 042</i> in the 2010 Internal EMS SFM audit report (August 2010).</p>	No issues noted with this specific requirement.
	c) the consultation process shall be opened to parties claiming an interest in or affected by implementation of this standard;		<p>PAC process initiated in November 2006 for the Sustainable Forest Management Plan and DMI's aboriginal consultation process.</p> <p>Procedures:</p> <ul style="list-style-type: none"> Checklist 010 <i>Environmental Public Concerns Report</i> Revision 1.3 Checklist 030 <i>Aboriginal Consultation Form</i> Revision 1.1 	Y	<p>DMI has developed forms to capture public concerns related to the environment or dialogue with aboriginal communities affected by DMI operations.</p> <p>A documentation review showed no concerns identified from these checklist procedures.</p>	No issues noted with this specific requirement.
	d) all identified parties shall be		<ul style="list-style-type: none"> DMI PRPD website, section Forest Certification, tab <i>FSC Controlled Wood</i> accessed January 2010 	Y	A review of the DMI website (January & June 2010) showed a number of	No issues noted with this specific requirement.





Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	provided with access to sufficient information;		Documentation: <ul style="list-style-type: none"> FSC COC Standard for Companies Supplying & Manufacturing FSC-Certified Products (40-004, Version 1-0) FSC CW Standard (40-005, Version 2-1) District of Origin map (V4C, 2009-08-11) Controlled Wood Risk Assessment Alberta Controlled Wood Risk Assessment BC DMI-PRPD FSC CW COC Certificate FSC CW COC Manual (Revision 1.5) 2008 FSC Certification Assessment report Licence Agreement for FSC certification Scheme 		documents were available to the broader public. This website also outlined the overall process and reference to the standards and requirements to become certified under these Standards.	
	e) Forest Management Enterprise shall maintain records to demonstrate the completeness of their consultation process;	Note: the Forest Management Enterprise shall consider guidance that may be provided by FSC International, FSC regional offices, or by FSC accredited national initiatives in relation to interpreting the requirements of FSC-STD-30-010 in a particular national or sub-national context.	Review of PAC meeting minutes between August 5, 2009 & April 26, 2010 (although PAC minutes go back 5 years, only reviewed most recent activity)	Y	Reviewed the documentation available from the Public Advisory Committee process that has been on-going since 2006. Auditor focused on documentation within the audit period. Interviews with Aboriginal Advisor confirmed consultation on-going and still being sought from a number of First Nation and Metis groups within the District of Origin. Records were available from two sources, the DMI PRPD website under the PAC tab and the Boreal Research Centre which is under contract to provide administration for this process including housing all materials related to the process.	No issues noted with this specific requirement.
	f) The Forest Management Enterprise shall be responsive to stakeholder questions or		A complaint was received by DMI PRPD regarding the controlled wood certificate and it was made by a concerned stakeholder.	Y	Reviewed the documentation available and the concern was addressed. No other stakeholder concerns noted in the audit period.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	concerns.					
FSC-STD-30-010 V2-0 EN Part 1: Quality Management System 1. System Requirements Supplying FSC Controlled Wood	1.4 The Forest Management Enterprise shall include the following information on all invoices issued for sales of FSC Controlled Wood products:					
	a) the name and address of the buyer;		Documentation: <ul style="list-style-type: none"> • <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, Section 3.9 Determination of FSC Claims & 3.10 Sales & Delivery and Appendix 6 Product Group Schedule • <i>PEFC SW Certified Pulp Summary</i> spreadsheet dated January 27, 2010 • <i>PEFC HW Certified Pulp Summary</i> spreadsheet dated January 27, 2010 	Y	The manual outlines the requirements as per the Standard. The documentation review showed the name of the buyer. The address was part of the PO number and invoicing process.	No issues noted with this specific requirement.
	b) the date on which the invoice was issued;		Refer to response Section 1. Element "a" in this section for details on audit evidence reviewed.	Y	The spreadsheets kept track of the date the product was shipped to the buyer.	No issues noted with this specific requirement.
	c) description of the product;		Refer to response Section 1. Element "a" in this section for details on audit evidence reviewed.	Y	The spreadsheets identified the product as either certified hardwood or softwood pulp.	No issues noted with this specific requirement.
	d) the quantity of the products sold;		Refer to response Section 1. Element "a" in this section for details on audit evidence reviewed.	Y	The spreadsheets identified the quantity of products sold by the number of bales.	No issues noted with this specific requirement.
	e) reference to the product's batch and/or to related shipping documentation;		Refer to response Section 1. Element "a" in this section for details on audit evidence reviewed.	Y	The spreadsheets identified the each lot number sold.	No issues noted with this specific requirement.
	f) sufficient to link the invoice to the goods received by the customer;		All product is sold to the parent company who distributes the product to market and it also has a chain of custody certificate to monitor their transaction process with the customers. Documentation: <ul style="list-style-type: none"> • <i>2010 PEFC Chain of Custody Internal Audit Report</i> dated May 19, 2010 	Y	The internal audit report done under the PEFC Chain of Custody provides the auditor with assurance that this requirement has been met.	No issues noted with this specific requirement.





Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
			The PEFC Chain of Custody system tracked and reported on the certified content of hardwood and softwood chips procured from company operations and third parties and the products produced from those chips.			
	g) the certification code issued by an FSC accredited Certification Body.		Refer to response Section 1. Element "f" in this section for details on audit evidence reviewed.	Y	The internal audit report done under the PEFC Chain of Custody provides the auditor with assurance that this requirement has been met.	No issues noted with this specific requirement.
	1.5 Invoices and shipping documents for sale of controlled wood shall always include the claim "FSC Controlled Wood". Where sale or transport documents cover a consignment of both controlled and uncontrolled wood it shall specify which products are sold or transported as "FSC Controlled Wood".		Refer to response Section 1. Element "f" in this section for details on audit evidence reviewed.	Y	The internal audit report done under the PEFC Chain of Custody provides the auditor with assurance that this requirement has been met.	No issues noted with this specific requirement.
	1.6 The Forest Management Enterprise shall ensure that claims in relation to FSC Controlled Wood meet the requirements specified in appendix 3 of		Refer to response Section 1. Element "f" in this section for details on audit evidence reviewed.	Y	The internal audit report done under the PEFC Chain of Custody provides the auditor with assurance that this requirement has been met.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	this standard.					
FSC-STD-30-010 V2-0 EN Part 1: Quality Management System 2. Specification of Scope of Evaluation	2.1 The Forest Management Enterprise shall specify the Forest Management Units (FMUs) under its management.		Documentation: <ul style="list-style-type: none"> DMI PRPD website accessed January & June 2010: <ul style="list-style-type: none"> section Certification, FSC Controlled Wood, <i>District of Origin</i> map section DMI Forest Management Area showed a map of the areas under management; there is also a link to the license documents which included a map (refer to Appendix A) which outlined areas under their agreements Alberta Sustainable Resource Development website accessed June 2010 had a link to Forest Management Agreement holders including DMI which confirmed the information provided on DMI PRPD website <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, Appendix 1 <i>Map of District of Origin</i> <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, section 2.2 District of Origin, 2.3 Deciduous Fibre Sources, 2.4 Coniferous Fibre Sources, & Appendix 2 Residual Chip Suppliers Contact List 	N	The <i>District of Origin</i> map outlined the areas which supply fibre to the mill. The manual provided additional detail to the deciduous and coniferous fibre sources, including a list of the residual chip suppliers. This requirement has not been met.	The <i>FSC CW COC Manual</i> Revision 1.5 dated March 16, 2009 incorrectly identified the Forest Management Agreement areas that DMI has under its management. DMI had entered into new FMA agreements in July 2009 that was not reflected in the current manual.
	2.2 The Forest Management Enterprise shall specify the FMUs to be included in the scope of evaluation for compliance with this standard.		Documentation: <ul style="list-style-type: none"> <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, section 2.2 District of Origin, 2.3 Deciduous Fibre Sources, 2.4 Coniferous Fibre Sources, & Appendix 2 Residual Chip Suppliers Contact List 	Y	Refer to response Section 2.1 in this section for details on auditor opinion.	No issues noted with this specific requirement.
	2.3 Any FMU under the control of the Forest Management Enterprise is not included in the scope of evaluation for compliance with this standard,		DMI PRPD continues to utilize the LIMS, Log Inventory Management System and it is augmented with the <i>PEFC SW Certified Pulp Summary</i> and <i>PEFC HW Certified Pulp Summary</i> spreadsheets updated on a quarterly basis.	Y	The LIMS program tracks the receipt of all input materials into the Pulp Mill and any satellite yard activity that might operate over the winter period. This input material includes softwood & hardwood chips; and timber from tree-length operations.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	then the Forest Management Enterprise shall implement a tracking system to ensure wood from FMUs included in the scope of the standard to be reliably identified as such.					
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood categories:	Sections 3 -7 are only applicable to the FMUs that are included in the scope of evaluation, as specified under section 2.2.	The category headings given to each Controlled Wood category are not normative within the standard. The criteria within each category are the normative statements which define the requirements for Controlled Wood within the bounds of these broad category headings e.g. 'Wood harvested in violation of traditional and civil rights' is the category heading whereas the criteria cover subsets of such rights specific to	Refer to responses to each element listed below for details on audit evidence.	Y	Refer to responses to each element listed below for details on auditor opinion.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		forestry and within the scope of influence of a Forest management Enterprise such as workers rights and traditional and indigenous peoples rights.				
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood categories 3. Illegally Harvested Wood	3.1 All harvesting shall take place in compliance with all laws applicable to harvesting in the jurisdiction in accordance with the criteria outlined in Table 1.			N	There were inconsistencies between LIMS and the Block Status report for approximately 1% of the loads entering the mill yard. The discrepancies were corrected within 3 days.	Inconsistencies with DMI control systems to ensure no illegally harvested wood enters the supply chain
	a) Evidence of legal authority to harvest;	Concession license and/or harvesting permit (approved by the appropriate authority).	Documentation: <ul style="list-style-type: none"> Alberta Sustainable Resource Development website: http://srd.alberta.ca/ManagingPrograms/ForestManagement/ForestManagementStatistics/Default.aspx <ul style="list-style-type: none"> Map of Forest Management Units & Forest Management Agreements dated April 30, 2009 http://srd.alberta.ca/ManagingPrograms/ForestManagement/ForestTenure/ForestManagementAgreements/Default.aspx <ul style="list-style-type: none"> Tab FMA holders, link to Daishowa-Marubeni International Ltd. agreements 2009 General Development Plan and associated map; and ASRD approval letter dated June 1, 2009 2009 Annual Operating Plans and associated maps; ASRD approval letters 2009 Final Harvest Plans and associated maps; ASRD approval letters 	Y	A review of the various websites showed the updated Forest Management Agreements held by DMI PRPD (re-issued in 2009) for the areas defined in the District of Origin map. The DMI FMA agreements and subsequent 2009 planning documents with approval letters showed evidence of legal authority to harvest timber.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	b) Evidence of compliance with applicable management planning requirements;	Approved management plan or equivalent documentation, as required by local authorities. Note: Implementation of the forest management plan is verified by the certification body in the field. Note: The means of verification may vary depending on the size of the forest management unit concerned.	Documentation: <ul style="list-style-type: none"> Summary Documentation Detailed Forest Management Plan – Revision 2007 dated July 2, 2008 (draft submitted for ASRD approval March 12, 2008) Approval letter from ASRD for the revised detailed forest management plan documents submitted between 2007 & 2008 Verification: <ul style="list-style-type: none"> 2010 Internal EMS SFM Audit 2010 Internal Compliance Audit 2009 CSA Z809-02 External Audit Report CSA Z809-02 Certificate re-issued November 26, 2009 as the original FMA agreement (1989) was re-issued as two separate FMA area agreements (2009) 	Y	Confirmed an approved Detailed Forest Management Plan is in place for the FMA. Field site visits for internal audits and reliance on third party external audit reports provided the verification.	No issues noted with this specific requirement.
	c) Specification of applicable harvesting restrictions;	Documentation specifying legal restrictions on harvesting (e.g. diameter limits, species restrictions, volume restrictions).	Documentation: <ul style="list-style-type: none"> <i>Manning Diversified Forest Products Ltd. Operating Ground Rules</i> dated February 2009 provided the deciduous merchantability standards <i>Alberta Timber Harvest Planning and Operating Ground Rules (1994)</i> provided the coniferous merchantability standards <i>Alberta Forest Management Planning Standard, Annex 1, Section 6.0 Harvest Planning Standards</i> 2009 Annual Operating Plans and associated maps; ASRD approval letters 2009 Final Harvest Plans and associated maps; ASRD approval letters 	Y	Confirmed that merchantability standards are defined in the approved Operating Ground Rules. DMI committed to these ground rules in the <i>2009 General Development Plan, Section 1 Introduction</i> . The approved Annual Operating Plan (AOP) for each operating area specified these standards were to be followed. In addition, each approved AOP states the anticipated volume to be harvested by quadrant and by individual block.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	d) Evidence that timber is harvested from authorized areas (e.g. not from protected areas where harvest is not allowed);	Maps and/or records showing the area in which harvesting has taken place.	<p>Documentation:</p> <ul style="list-style-type: none"> • 2010 Internal EMS SFM Audit • 2010 Internal Compliance Audit • LIMS program • Alberta Sustainable Resource Development website accessed January and June 2010: http://srd.alberta.ca/ManagingPrograms/ForestManagement/ForestManagementDirectives/Default.aspx <ul style="list-style-type: none"> ○ Tab Compliance and Enforcement, <i>Contraventions for the past five years: 2009 & 2010</i> covering the internal audit period 	Y	<p>Confirmed during the on-site review of harvest activities and a review of documentation authorizing these activities.</p> <p>No fibre can enter the Pulp Mill or satellite yard unless the load has a TM 9. Loads with no TM 9 cannot be received and are rejected by the scale house.</p> <p>DMI PRPD is not listed on the Contraventions Listing in 2009/2010.</p> <p>Other FMA or quota holders that are a source of deciduous/coniferous fibre may be listed for contraventions under section 10 of the <i>Forest Act</i> for unauthorized harvest of timber; however the posting does not necessarily determine the exact time period when the infraction occurred or the volume involved.</p> <p>In addition, ASRD has adopted a fine process of escalating fines based on past performance, therefore a large fine cannot necessarily be associated with a large volume of timber harvested.</p>	No issues noted with this specific requirement.
	e) Evidence of timber sales;	Sales contracts, invoices.	DMI PRPD did not obtain timber from sales during the audit period.	N/A	The auditor did not assess this requirement as no sales had taken place. All harvest operations were within DMI or quota holder held licence areas.	N/A
	f) Evidence of payment of royalties or other fees (i.e. fees on harvesting	Official records confirming payments.		N/A	In the auditor's opinion, no evidence was uncovered that timber dues were unpaid.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	rights);					
	g) Evidence of compliance with applicable provisions and requirements of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);	An up to date list of tree species in the FMU that are listed in Appendices I to III of the (CITES). National permits for harvest or trade of any CITES-listed species, if applicable.	Reviewed the list of tree species in Appendices I to III. Documentation: <ul style="list-style-type: none"> Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5 dated March 16, 2009, Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia 	Y	The tree species on the list did not exist within the District of Origin. The risk assessment process gave the auditor additional assurance that DMI PRPD met this requirement (deemed as low risk).	No issues noted with this specific requirement.
	h) Evidence of compliance with requirements in relation to transportation of timber.	Copies of transport or sales permits with specification of species and volumes as applicable.	Documentation: <ul style="list-style-type: none"> LIMS program Alberta Sustainable Resource Development website accessed January and June 2010: http://srd.alberta.ca/ManagingPrograms/ForestManagement/ForestManagementDirectives/Default.aspx <ul style="list-style-type: none"> Tab Compliance and Enforcement, <i>Contraventions for the past five years: 2009 & 2010</i> covering the internal audit period 	Y	No fibre can enter the Pulp Mill or satellite yard unless the load has a TM 9. Loads with no TM 9 cannot be received and are rejected by the scale house. DMI PRPD does not appear on this list.	No issues noted with this specific requirement.
	3.2 All species, qualities and quantities shall be classified and measured according to legally prescribed or acceptable standards.		Documentation: <ul style="list-style-type: none"> Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5 dated March 16, 2009, Appendix 3 Chip Weight Conversion Methodology 	Y	The method described was approved by the Alberta Sustainable Resources Department.	No issues noted with this specific requirement.
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood categories	4.1 There is evidence of no violation of the International Labor Office (ILO) Fundamental Principles and	The ILO Declaration on Fundamental Principles and Rights at Work is an expression of commitment by	Documentation: <ul style="list-style-type: none"> Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5 dated March 16, 2009, Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia 	Y	The risk assessment process gave the auditor additional assurance that DMI PRPD met this requirement (deemed low risk). Federal and provincial labour codes for Alberta provided additional	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
4. Wood harvested in violation of traditional and civil rights	Rights at Work in the FMU.	governments, employers' and workers' organizations to uphold basic human values - values that are vital to our social and economic lives. The Declaration on Fundamental Principles and Rights at Work covers four areas: · Freedom of association and the right to collective bargaining; · The elimination of forced and compulsory labour; · The abolition of child labour, and; The elimination of discrimination in the workplace.			assurance. During on-site filed visits, the auditor deemed all employees were eligible for work under the labour codes.	
	4.2 No conflicts relating to land tenure or land use rights of traditional or indigenous peoples groups exist in the FMUs under control of the Forest		The aboriginal consultation process established by DMI PRPD for its operations under the SFM plan. The acknowledgement to voluntarily remain outside the Lubicon traditional territory and only accept fibre if the Lubicon formally agree to its use from their territory. This agreement includes incidental timber generated by other quota holders and the energy sector (refer to the <i>2009 Forest Development Plan</i> , Section 2, Introduction for commitment). Other areas of operation under the Forest Management Agreements are within Treaty 8 traditional territories. There is an aboriginal consultation policy established by Alberta and DMI approvals were based on consultation being conducted.	Y	DMI PRPD has established a protocol with First Nations & Metis and there was no evidence of conflicts. The risk assessment process gave the auditor additional assurance that DMI PRPD met this requirement (deemed as low risk). DMI PRPD met this requirement.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	Management Enterprise for which a resolution process has not been agreed by the main parties to the dispute (see section 4.4 below).		Documentation: <ul style="list-style-type: none"> • <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia 			
	4.3 There is evidence of no violation of the ILO Convention 169 on Indigenous and Tribal Peoples taking place in the FMUs under control of the Forest Management Enterprise.		Refer to response to Element 4.2 in this section for details on audit evidence.	Y	Refer to response to Element 4.2 in this section for details on auditor opinion.	No issues noted with this specific requirement.
	4.4 The Forest Management Enterprise shall implement a consultation process to identify potential conflicts relating to land tenure or land use rights of traditional or indigenous peoples groups in the areas affected by the Forest		Refer to response to Element 4.2 in this section for details on audit evidence.	Y	Refer to response to Element 4.2 for details on auditor opinion.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	Management Enterprise operations.					
	4.5 In cases where a resolution process is in place (see section 4.2 above), the Forest Management Enterprise shall provide evidence of the process by which any disputes are being resolved, which demonstrates the broad support of the parties to the dispute, and which outlines an agreed interim process for addressing the dispute and for the management of the forest area concerned.		Refer to response to Element 4.2 in this section for details on audit evidence.	Y	Refer to response to Element 4.2 for details on auditor opinion.	No issues noted with this specific requirement.
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood	1.1 Forest management activities in the FMU shall not threaten high		Refer to responses to each element listed below for details on audit evidence.	Y	Refer to responses to each element listed below for details on auditor opinion.	No issues noted with this specific requirement.





Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
categories 5. Wood harvested in forests in which high conservation values are threatened by management activities	conservation values in accordance with section 5.2 below.					
	1.2 The Forest Management Enterprise shall keep records of evidence to demonstrate compliance with Section 5.1 above. Evidence shall include but is not restricted to:					
	a) records of an assessment (e.g. ecological assessment, environmental impact assessment or wildlife census, social assessment) appropriate to the size of the FMU and intensity of management to identify the presence of high conservation values.		Documentation: <ul style="list-style-type: none"> • Summary Documentation Detailed Forest Management Plan – Revision 2007 dated July 2, 2008 (draft submitted for ASRD approval March 12, 2008) <ul style="list-style-type: none"> ○ Section 2.4 Framework for the Maintenance of Local High Conservation Value Forest Areas ○ Section 2.5 Framework for the Maintenance of Local Continuous Reserve Network ○ Section 2.7 Framework for Addressing High Risk Species • <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia • <i>2009 General Development Plan</i>, Section Initiatives included: Downed Woody Debris, Dispersed Chipper Biomass Assessment, Wildfire Pattern Study, Sensitive Species (grizzly bear, caribou, amphibians) <ul style="list-style-type: none"> ○ All the initiatives were in collaboration with research organizations, institutes, universities 	Y	A number of processes identified in the SFM plan to address this element have been established and were on-going. On-site field visits of harvest activities showed the concepts were being implemented. The risk assessment process gave the auditor additional assurance (rated low risk) that DMI PRPD met this requirement.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	b) evidence[1] of consultation with stakeholders in relation to the precautionary measures, including NGOs and parties that are involved with or have an interest in the forest area with respect to social or environmental aspects. Where relevant, the assessment shall include consultation with representatives and members of communities and indigenous peoples living in or adjacent to the FMU.		Refer to response to Element System Requirements 5.“a” in this checklist for details on audit evidence.	Y	Refer to response to Element System Requirements 5.“a” in this checklist for details on auditor opinion.	No issues noted with this specific requirement.
	c) a list of the high conservation values thus identified in the FMU, together with evidence indicating that high conservation values are not threatened in the FMUs.	Intent box: The intent of the requirements for ‘FSC Controlled Wood’ is to ensure that critically endangered or threatened high conservation values are identified and conserved.	Refer to response to Element System Requirements 5.“a” in this section for details on audit evidence.	Y	Refer to response to Element System Requirements 5.“a” in this section for details on auditor opinion.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification	
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood categories 6. Wood harvested from areas being converted from forests and other wooded ecosystems to plantations or non-forest uses	1.1 No conversion of natural and semi-natural forests and other wooded ecosystems such as woodlands and savannahs to plantations or non-forest uses take place, except as permitted by section 6.3 below.		Documentation: <ul style="list-style-type: none"> • <i>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.5</i> dated March 16, 2009, Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia & Appendix 5 FMA Land Conversion data • <i>2009 General Development Plan</i>, Section Initiatives included: Boreal Reclamation Program to address the restoration of oil and gas based disturbances within the FMA 	Y	All authorized harvesting is under an approved Annual Operating Plan pertaining to a specific licence that has been issued. On-site field visits of harvest activities verified that conversions were not present on the landbase. The risk assessment process gave the auditor additional assurance (rated low risk) that DMI PRPD met this requirement.	No issues noted with this specific requirement.	
	1.2 The Forest Management Enterprise shall keep records to demonstrate compliance with section 6.1 above.		DMI PRPD has established and maintains a procedure in the <i>Forest Resources EMS & SFM Manual, Revision 1.4</i> dated January 23, 2009. The procedure can be found in chapter 10, <i>Documentation and Control of Documents and Records</i> and associated appendix D, <i>List of Documents and Records</i> .	Y	Refer to the ISO 14001 & CSA SFM Z809-02 systems for document & record control. All authorized harvesting is under an approved Annual Operating Plan pertaining to a specific licence that has been issued.	No issues noted with this specific requirement.	
	1.3 Forest conversion to plantations or non-forest land uses shall not occur, except in circumstances where conversion:						
	a) entails a very limited portion of the FMU,			The FMA is crown land and there is a requirement under the licence document to establish crops in areas that have been harvested under the FMA agreements.	Y	No land conversion has occurred within the District of Origin as a result of DMI activities within their control.	No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	b) does not occur on high conservation value forest areas,		Refer to response to Element System Requirements 5. "a to c" in this checklist for details on audit evidence.	Y	Refer to response to Element System Requirements 5. "a to c" in this checklist for details on auditor opinion.	No issues noted with this specific requirement.
	c) will enable clear, substantial, additional, secure long term environmental and social benefits across the FMU.		Documentation: <ul style="list-style-type: none"> Summary Documentation Detailed Forest Management Plan – Revision 2007 dated July 2, 2008 (draft submitted for ASRD approval March 12, 2008) 	Y		No issues noted with this specific requirement.
FSC-STD-30-010 V2-0 EN Part 2: FSC Controlled wood categories 7. Wood from forest management units in which genetically modified trees are planted	7.1 The Forest Management Enterprise shall ensure that no planted genetically modified (GM) trees are present in the FMU.		Documentation: <ul style="list-style-type: none"> Applicable Acts and regulations restrict the use of genetically modified deciduous trees in Alberta 	Y	<p>The auditor is aware of DMI's research program on private land with respect to the growth of aspen.</p> <p>The Alberta government does not allow the transfer of stock or seed to any of DMI's FMA from this research even though it would meet the requirements of not being a GMO.</p> <p>The risk assessment process gave the auditor additional assurance (rated low risk) that DMI PRPD met this requirement.</p> <p>In addition, DMI relies on natural suckering for aspen regeneration. Planting is limited to areas that have been designated conifer leading sites.</p>	No issues noted with this specific requirement.
	7.2 The Forest Management Enterprise shall keep records of and make available on		DMI PRPD has established and maintains a procedure in the <i>Forest Resources EMS & SFM Manual, Revision 1.4</i> dated January 23, 2009. The procedure can be found in chapter 10, <i>Documentation and Control of Documents and Records</i> and associated appendix D, <i>List of Documents and Records</i> .	Y		No issues noted with this specific requirement.



Section	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
	request evidence to demonstrate compliance with section 7.1 above.					