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Postal Bag 6500, Pulp Mill Site  
Peace River, AB T8S 1V5

1 September 2011

Dear Sam:

**Re: ISO 14001-2004 and CSA Z809-2002 Re-certification Audit Report for Daishowa-Marubeni International Ltd. - Peace River Pulp Division**

Our ISO 14001 and CSA Z809 Re-certification Audit Report for Daishowa-Marubeni International Ltd. - Peace River Pulp Division Forest Resources Business Unit (FRBU) is attached. The report documents the results of the audit that took place August 22-26, 2011.

As communicated to you previously, you are required to submit corrective action plans to address all identified non-conformities within 30 days of the date of the closing meeting. Upon receipt by KPMG PRI, these will be reviewed to verify that they adequately address the root cause(s) of the non-conformities identified during the audit, and either approved or returned to you for revision.

We value the ongoing working relationship that we have with Daishowa-Marubeni International Ltd. - Peace River Pulp Division, and appreciate the assistance provided to the audit team by Company staff and contractors during the audit process.

If you have any questions regarding the results of the audit or what is required in the way of corrective actions, please call me at the phone number listed below.

Yours truly,

Gregor Macintosh RPF, CEA(SFM)  
*KPMG PRI*

Enc: ISO 14001 and CSA Z809 Re-certification Audit Report for Daishowa-Marubeni International Ltd. - Peace River Pulp Division



**ISO 14001 and CSA Z809 Re-certification Audit Report  
for Daishowa-Marubeni International Ltd.**

**Peace River Pulp Division**

**Forest Resources Business Unit**

**1 September 2011**

The information in this audit report is confidential and may be legally privileged. It is intended solely for the use of the intended recipient, Daishowa-Marubeni International Ltd. - Peace River Pulp Division. Access to this audit report by anyone else is unauthorized. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful. Any opinions contained in this audit report are subject to the terms and conditions expressed in the governing KPMG PRI client engagement contract.



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## A. Client Information

<b>Client Name:</b>	Daishowa-Marubeni International Ltd. – Peace River Pulp Division (DMI-PRPD) Canfor Grande Prairie (embedded conifer quotas)
<b>Audit Criteria:</b>	ISO 14001:2004 and CSA Z809-02
<b>Scope of Certification:</b>	ISO 14001: All Sustainable Forest Management and operational activities on public and private lands required to supply the fibre requirements of the Peace River Pulp Mill. CSA Z809: Daishowa-Marubeni International Ltd. Forest Management Agreement (FMAs 0900044 and FMA 0900045 – including Canfor conifer quota areas CTQ P130002, P130004, and P150004).
<b>Client Representative:</b>	Samuel Elkins, Continuous Improvement Coordinator
<b>Assessment Number:</b>	ISO 14001: #2438 CSA Z809: #2438.02

## B. Document Review Findings

An offsite document review was conducted of the DMI FRBU sustainable forest management and environmental management systems in July 2011. The document review identified one area of concern respect to the requirements of CSA Z809 – 2002. No areas of concern were identified with respect to ISO 14001:2004. The results of the document review did not warrant any changes to the re-certification audit plan or scope.

## C. Audit Details

<b>Type of Audit:</b>	Re-certification audit
<b>Date(s) of Document Review:</b>	July 16-18, 2011
<b>Date(s) of Audit:</b>	August 22-26, 2011
<b>Date of Next Assessment:</b>	Summer / Fall 2012
<b>Audit team:</b>	Lead auditor: Gregor Macintosh, RPF Audit team members: Craig Roessler, RPF (BC & AB) Mike Alexander, RPF
<b>Audit Report Distribution:</b>	DMI - Peace River Pulp Division FRBU KPMG PRI audit files
<b>Audit objective(s):</b>	The objective of the audit was to evaluate the environmental and sustainable forest management system at Daishowa-Marubeni International Ltd. - Peace River Pulp Division, its implementation, effectiveness and conformance with the requirements of the CSA Z809-2002 and ISO 14001-2004 standards. The objective was met.

<b>Audit scope:</b>	<p>The scope of the audit included:</p> <p>The elements of the ISO 14001 and CSA Z809 standard outlined in the audit plan.</p> <p>Activities conducted under the DMI FRBU management system during the period August 12, 2010 – August 21, 2011.</p> <p>Activities conducted under the Canfor Grande Prairie management system on the embedded quotas during the period August 12, 2010 – August 21, 2011.</p> <p>Visits to the following Company operations:</p> <ul style="list-style-type: none"> <li>• FRBU Offices</li> <li>• DMI field sites</li> <li>• Canfor Grande Prairie Field Sites</li> </ul>
<b>Audit sample size:</b>	<p>Number of field sites visited during the audit:</p> <p>Roads: 20 DMI &amp; 4 Canfor GP Quotas</p> <p>Harvesting: 19 DMI &amp; 4 Canfor GP Quotas</p> <p>Silviculture: 5 DMI &amp; 4 Canfor GP Quotas</p> <p>Camps / Facilities: 4 DMI</p>

## D. Audit Findings

### Good Practices

The following good practices were noted during the audit:

1. ISO 14001 4.5.1 & CSA Z809 7.5.1: The DATS database was observed to be a very effective tool for tracking training, incidents, public complaints, audit results/tasks, and document control
2. ISO 14001 4.4.6 & CSA Z809 7.4.6: Excellent examples of road “roll-back”, chipper site ripping and water crossing deactivation were noted on all deactivated sites visited.
3. ISO 14001 4.4.6 & CSA Z809 7.4.6: The implementation of the field procedures to conform to the operational retention requirements was found to be very good on all sites visited.

### Follow-up on open non-conformities from previous audits

At the time of this assessment there were a total of 6 open minor non-conformities from the 2010 audit. The audit team reviewed the implementation of the action plans developed by DMI PRPD FRBU and Canfor Grande Prairie (for operations on their quotas with the defined forest area) to address these issues, and found that that with one exception (NC-Mi-PA2-02) they had been effectively implemented. As a result, the remaining 5 minor non-conformities identified during the 2010 audit have now been closed.

## Major non-conformities

The following major non-conformities were identified during the audit:

1. **Major non-conformity:** 2438/2438.02-NC- RR-Ma-01  
**Standard/Element(s):** ISO 14001 4.4.7 & CSA Z809 7.4.7  
**Client Procedure:** Forest Resources Field Guide

The ISO 14001 and CSA Z809 standards at 4.4.7 and 7.4.7 respectively require the organization to establish, maintain and implement procedures to identify potential emergency and accident situations and prevent and mitigate the impacts that may be associated with accidents and emergencies. Section 19 of the DMI “Forest Resources Field Guide” specifies the minimum spill kit requirements for the operating equipment used in forestry and logging operations while Section 13 of the same guide specifies the minimum fire suppression equipment required to be maintained on vehicles used on DMI operations. The field audit identified the following nonconformities in the implementation of DMI’s procedures as they relate to emergency preparedness and response equipment that were not referenced in DMI inspections:

- 1) Spill kit deficiencies:
  - No grey absorbent pads on the mobile fuel truck, skidder and at the fuel station in camp (Block 266 / Peace River Logging Camp);
  - No “Plug and Dyke” on the feller buncher, chipper and chip truck (on block 266 and the Peace River Logging Camp) or the feller buncher (on 8902-0854 – Canfor block);
  - No absorbent pads of any kind on the chip truck (Block 266 / Peace River Logging Camp);
  - No spill kit in a pick-up with a tidy tank (Block 266 / Peace River Logging Camp), and;
- 2) Fire suppression equipment deficiencies:
  - the built-in fire suppression system pressure gauge indicated a low pressure situation and a chip truck on-site had no fire extinguisher (Block 266);
  - contractor pick-ups (Block 91, SU-P2200) and 2 skidders and a pick-up with a truck box fuel tank (8902-0854 – Canfor block) each had one 10 lb. fire extinguisher as opposed to the required 20 lb. extinguisher;
  - two feller bunchers’ where backpack water containers were only 1/3 full (Sec 15 Twp 94 Rge 21 W 5 Blk 001).

2. **Major non-conformity:** 2438/2438.02-NC-RR–Ma-02  
**Standard/Element(s):** ISO 14001 4.4.6 & CSA Z809 7.4.6  
**Client Procedure:** Fuel Management Field Guide  
 FR-E007 Private Sewage Disposal Systems

The ISO 14001 and CSA Z809 standards at 4.4.6 and 7.4.6 respectively require the organization to identify and plan those operations associated with its identified significant environmental aspects to ensure that they are carried out under specified conditions by establishing, maintaining and implementing documented procedures to control situations where their absence could lead to deviation from the environmental policy and objectives and

targets. The field audit identified the following nonconformities in the implementation of DMI's operational controls:

- 1) The Fuel Management Field Guide specifies standard requirements for fuel storage and handling. The following deficiencies were noted at 3 of the 4 facilities visited during the audit:
  - the gasoline nozzle did not have drip containment and the used oil tank did not have a placard or WHMIS label at the Peace River Logging Camp;
  - the 35,000 l diesel tank ET71 was not found on the tank inventory list and had minor leaks at the filter and hose connections resulting in minor soil staining and the 1500 l diesel generator fuel tank was uncontained at the Garden River Logging Camp;
  - the 50,000 l fuel tank (12,000 l gasoline and 38,000 l diesel) HL74 associated with the Peace Country Ventures operations was not found on the tank inventory list did not have adequate secondary containment or adequate nozzle drip containment; and
  - the fuel truck had no TDG certificate (Block 266 / Peace River Logging Camp).
  
- 2) FR-E007 specifies that “All sewage storage constructed will have a valid permit for all tenure types” and that these facilities will be operated according to the provisions of that permit. The Pineridge Logging/Garden River Logging Camp was recently set up and two sewage sumps (one for the camp buildings and the other for the family RVs) had been excavated and were being used prior to a Private Sewage Disposal Permit being issued for the site (NB. this permit has been applied for, but will not be issued until the soil sample report is received). Five RVs were also found to be on-site, however, only one was connected to the sump. Two of the other RVs were observed to be dumping grey water directly to the ground surface.

### Minor non-conformities

The following minor non-conformities were identified during the audit:

1. **Minor non-conformity:** 2438.02-NC-RR-Mi-01

**Standard/Element(s):** CSA Z809 7.3.3.1, 7.4.1 and 7.4.3.1

**Client Procedure:** Forest Resources EMS & SFM Manual, Field Procedures, EP&RPs

The CSA Z809 standard at 7.3.3.1 and 7.4.1 require the organization to define, document and communicate the respective roles, responsibilities and authorities of parties involved in the process and of those required to implement and maintain conformance with the SFM requirements. In addition, the standard at 7.4.3.1 requires the organization to establish and maintain procedures for internal communication between its various levels and functions.

In preparation for including Canfor conifer quota areas in DMI's FMAs within the scope of DMI's CSA Z809 certification, DMI and Canfor went through a process in 2009 of comparing the two Companies' respective EMS' and working out a way of either revising Canfor's processes and forms to make them consistent with DMI's or adopting DMI's processes and forms. DMI in partnership with Canfor need to revisit the decisions and actions arising from the process to ensure that the respective roles, responsibilities and authorities for implementing and maintaining conformance with the SFM requirements in the quota areas are clearly communicated and understood by both parties in order for DMI's

management system requirements to be implemented as expected in these areas. For example, the audit identified the following issues:

- DMI procedures and forms are not being followed and used for Canfor’s chemical tending operations as decided upon in the July 9, 2009 meeting; and
- The existing arrangement between DMI and Canfor does not require EMS forms completed for Canfor’s activities to be communicated to, retained as a record and reviewed by DMI as is occurring with DMI completed forms and corresponding results. The lack of such a process makes it impossible for DMI to evaluate whether or not management system requirements (respecting pre-works, inspections, incident investigations, nonconformities and corrective/preventive actions, etc.) are being implemented in accordance with DMI requirements and expectations in the quota areas and to include any issues identified in the quota areas in the quarterly management reviews.

2. **Minor non-conformity:** 2438/2438.02-NC-RR-Mi-02

**Standard/Element(s):** ISO 14001 4.5.4 and CSA Z809 7.5.3

**Client Procedure:** Forest Resources EMS & SFM Manual - Chap. 10

The ISO 14001 standard at 4.5.4 and CSA Z809 standard at 7.5.3 requires the organization to establish, implement and maintain a procedure for the identification, storage, protection, retrieval, retention and disposal of records and to maintain records as necessary to demonstrate conformity to the requirements of its EMS/SFM and the standards. DMI’s record control procedure (Forest Resources EMS & SFM Manual, Chapter 10) indicates that these requirements will be met by storing records in the FRBU filing system in such a way that they are readily retrievable and protected against damage, deterioration, or loss.

The audit determined that the majority of the EMS/SFMS records specified in DMI’s list of records were adequately protected by either being stored in the fireproof vault (if in hardcopy form) or being stored electronically. However, some silviculture records are not currently being stored in accordance with the standards or DMI’s procedures in such a way as to protect them against damage, deterioration or loss (e.g., completed hardcopy fuel and facility inspection checklists, start-up meeting checklists and inspection/monitoring checklists).

## Opportunities for improvement

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement:** 2438-OFI-RR-01

**Standard/Element(s):** ISO 14001 4.3.2

**Client Procedure:** Forest Resources EMS & SFM Manual, Chap. 4

The ISO 14001 standard at 4.3.2 requires the organization to establish, implement and maintain a procedure to determine how its applicable legal and other requirements apply to its environmental aspects. While DMI’s process for determining the significance of environmental aspects includes a regulatory liability rating assignment and operational controls have been established to address significant environmental aspects and legal and other requirements, an opportunity exists to make more explicit the linkage between applicable legal and other requirements and environmental aspects.

2. **Opportunity for improvement:** 2438/2438.02-OFI-RR-02

**Standard/Element(s):** ISO 14001 4.6 & CSA Z809 7.6

**Client Procedure:** Forest Resources EMS & SFM Manual - Chap. 16

The ISO 14001 standard at 4.6 along with DMI's EMS&SFM Manual (Ch. 16) requires that inputs to the management review include amongst other elements the status of corrective of preventive actions. While the status of corrective and preventive actions are tracked through other means (e.g., in DATS and Cengea) and the status of incidents are clearly documented in the quarterly management reviews, the status of corrective and preventive actions are not explicitly reviewed by management and documented during the reviews. In addition, follow-up from previous management reviews are also not an explicit input item on the agenda of the quarterly management reviews (although interview evidence indicates that there have been none in recent reviews).

3. **Opportunity for improvement:** 2438/2438.02-OFI-RR-03

**Standard/Element(s):** ISO 14001 4.4.2 & CSA Z809 7.4.2

**Client Procedure:** Forest Resources EMS & SFM Manual - Chap. 8

Awareness levels demonstrated by the sample of contractor employees interviewed during the field audit were determined to be good overall, with the following isolated exceptions:

- Skidder operator had a general lack of awareness of EMS requirements and operational issues pertaining to the block (N 15 TWP 92 Rng 21 W. 5 Blk. 001).
- Skidder operator (8902-0854 – Canfor) and Safety Coordinator (91SU-P2200) were not aware of the difference between white and grey spill pads.
- Feller buncher operator was not aware of the 1% retention target for pine blocks (8902-0854 – Canfor). NB: this target would be met with the retention patch on this particular block.

## Audit conclusions

As noted above, 2 major non-conformities were identified during the recertification audit. Daishowa-Marubeni International Ltd. - Peace River Pulp Division will therefore not be recommended for re-certification at this time. Once corrective action plans to address the major non-conformities have been received and approved by KPMG PRI, we will review the evidence provided to verify the implementation of the corrective and preventative action plans. *Please note that it verification is not possible via review of evidence supplied a follow-up visit may be needed to close out the outstanding issues.*

NB: Our assessment by its nature is a sample and is not intended to be as comprehensive as your internal audit. It is possible for nonconforming issues to remain undetected. Our next assessment will verify that your internal audits have continued to operate as the primary mechanism to ensure that your management system remains effectively implemented and continues to improve.

## **E. Corrective Action Plans**

Written corrective action plans that are designed to address the root causes of all identified non-conformities are required within 30 days of the closing meeting. These will be reviewed by KPMG PRI for adequacy, and either approved or returned for revision.

A template for Daishowa-Marubeni International Ltd. - Peace River Pulp Division to develop the required corrective action plans has been provided to you for this purpose. Please complete the appropriate section of this template and e-mail your proposed corrective actions to the KPMG PRI lead auditor for review.

## **F. Focus Areas for Next Audit Visit**

The following issues/potential concerns have been identified as focus areas for the next audit visit:

1. Implementation of the CSA Z809-2008 standard
2. Follow up on the audit non-conformities and opportunities for improvement identified during the 2011 audit.