

DAISHOWA-MARUBENI INTERNATIONAL LTD.

Forest Resources Business Unit

Internal PEFC COC Audit 2011



August 2011

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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 – PEFC COC Internal Audit: August 2011

Audit Scope

Samuel Elkins, Continuous Improvement Coordinator engaged Robert Volkman, EP (EMSLA) EP (CEA), to conduct the annual internal audit of the Peace River Pulp Division's (PRPD) PEFC Chain of Custody program.

Audit scope: ***“Elements of the PEFC Annex 4 including an evaluation of the mill complex (including shipping), and the Forest Resources Business Unit”.***

Audit Objective

The objective was verification that the PEFC CoC conformed to planned arrangements chain of custody requirements; and was implemented and maintained in a manner consistent with the *PEFC Annex 4 Chain of Custody for Forest Based Products*.

The focus was an assessment to determine input sources:

- no wood from controversial sources;
- harvesting does not encroach on protected areas;
- conforming to elements in Standard.

Audit Period

The audit period was from June 1, 2010 to July 9, 2011.

Audit Criteria

The primary criterion was the PEFC Annex 4 Chain of Custody for Forest Based Products. Other standards that supported the system were *ISO 9001:2000 Standard*, *(CAN) CSA Z-809:02 Standard*, and *DMI PRPD Production Business Unit Quality Management System Manual* (June 2009). This included any related documentation as described under *Chapter 15 Internal Audit Programs* and *CHK-043.3 PEFC 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 PEFC CoC internal audit; and holds Environmental Management System Lead Auditor, Certified Environmental Auditor, Registered Safety Professional, Environmental Professional, and Registered Professional Forest Technologist (Alberta) designations. Samuel Elkins (auditor) and Connie Forrest (auditor) accompanied Robert during field and office assessment work.

Audit Process

The preliminary opening meeting was held March 7, 2011. The on-site portion of the internal PEFC CW CoC audit was conducted in two phases. The first phase was from March 5 to 12, 2011 in conjunction with the ISO 14001 EMS internal audit. The second phase was from July 2 to 9, 2011 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 2011 (refer to 2011 Internal EMS SFM & 2011 Compliance Audit Report).

Audit Observations

DMI PRPD continues to invest resources, human and financial, in the voluntary certification schemes (ISO 9001:2000 QMS & CSA Z809-02 SFM) to which the company has subscribed. These voluntary certification schemes supported the PEFC Chain of Custody system and provided the continual assessment of forest management planning and practices on the forest landbase. In addition, these systems provided senior management with performance metrics to assess and evaluate whether planning and practices met commitments with DMI's sustainable forest management principles.

DMI PRPD customers who purchase these forest based products also require assurance fibre inputs do not originate from controversial sources.

DMI FRBU continued to engage all parties affected by its operational activities in a positive manner. Engagement activities included:

- DMI becoming a signatory to the Canadian Boreal Forest Agreement;
- Dialogue with First Nations where DMI has operational activities (including consultation and economic development opportunities);
- PRPD encourages all suppliers of fibre, where certification does not exist, to consider certification in the future.

Audit Conclusions

Daishowa-Marubeni International

Status of open opportunities-for-improvement from Internal FSC CW COC Audit 2011

There were two opportunities-for-improvement (**OFI-IA-2010-01 & OFI-IA-2010-02**) identified during the 2010 internal PEFC COC audit.

OFI-IA-2010-01 related to inconsistencies with the PEFC COC manual and these inconsistencies were corrected in the updated version dated August 17, 2010.

OFI-IA-2010-02 related to FMA changes not being reflected in the PEFC HW Certified Pulp Summary. The spreadsheet has been updated to reflect these changes.

The corrective action plans implemented by DMI to address these non-conformities were deemed sufficient to close opportunities-for-improvement: **OFI-IA-2010-01** and **OFI-IA-2010-02**.

Major Non-Conformities from Internal PEFC COC Audit 2011

No major non-conformities were noted during the audit review.

Minor Non-Conformities from Internal PEFC COC Audit 2011

No minor non-conformities were noted during the audit review.

Opportunities-for-Improvement from Internal PEFC COC Audit 2011

No opportunities-for-improvement were noted during the audit review.

Audit Summary

This internal PEFC 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 no 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.

The PEFC CoC Standard has been updated and it would be expected the internal audit scheduled for 2012 will assess the DMI PRPD PEFC CoC program against the new Standard (PEFC ST 2002:2010). DMI PRPD should consider a review the new Standard requirements and update their current program to meet these requirements, where applicable.

Disclaimer / Statement of Limitations

This audit report was prepared exclusively for Daishowa-Marubeni International Ltd. (DMI) Peace River Pulp Division, Production Business Unit & 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 PRB & 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) EP (CEA) EP EMSLA) EPt (GHG)

Appendix A
Detailed PEFC COC Checklist (CHK-043.3)
(16 pages)



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
PEFC Council Technical Document Annex 4 Section 3: Requirements for chain of custody process – percentage based method	3.1 General requirements for percentage based methods 3.1.1 Application of percentage based method	The percentage based method of the chain of custody applies to organizations, which production / trading processes certified raw material is mixed together with other raw material categories and the certified raw material cannot be clearly identified in the output products.					
	3.1 General requirements for percentage based methods 3.1.2 Definition of the production batch	3.1.2.1 The organization shall implement the requirements for the chain of custody process of this standard for the specific production batch.		Documentation: Program for the Endorsement of Forest Certification (PEFC) Manual , dated August 17, 2010 <ul style="list-style-type: none"> Page 9, section 4.1 General Requirements defines a production batch as “all Softwood or Hardwood pulp produced during production runs in a given quarter” and “all pulp of a specific type (softwood, hardwood or transition) produced in a given quarter” 	Y	DMI has developed a program which was outlined in the PEFC manual to meet all requirements of this Standard. This specific requirement has been met.	No issues noted with this specific requirement.
		3.1.2.2 The organization shall identify its production batch(es) based on the following criteria: (a) raw material included in the products covered by the production batch, (b) production site at which the products covered by the production batch has been produced, (c) the time period over which the products covered by the production batch has been produced or sold / transferred.		Documentation: PEFC Manual , dated August 17, 2010 <ul style="list-style-type: none"> Page 9, section 4.1 General Requirements: <ul style="list-style-type: none"> All chips delivered in a given quarter are considered the input raw materials delivered in a quarter; All Softwood chips are delivered to the South West Chip Pile at the Daishowa Marubeni International Ltd, Peace River Pulp Division, Pulp Mill site. Hardwood chips are delivered to the North East, North West and South East Chip Piles; PRPD uses the calendar year to define quarters January 1 – March 31 is the first quarter of a year and October 1 to December 31 is defined as the fourth quarter 	Y	DMI has identified the raw material included in the products, the production site, and the time period. This specific requirement has been met.	No issues noted with this specific requirement.



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		3.1.2.3 The production batch shall be associated with (i) a single product or (ii) a group of products, which consist of the same or similar input raw material according to, for example species, sort, etc.		Documentation: DMI PRPD Program for the Endorsement of Forest Certification (PEFC) Chain of Custody Manual , dated August 17, 2010 Page 9, section 4.1 General Requirements defines a production batch as " all Softwood or Hardwood pulp produced during production runs in a given quarter " and " all pulp of a specific type (softwood, hardwood or transition) produced in a given quarter "	Y	DMI has defined the production batch. This specific requirement has been met.	No issues noted with this specific requirement.
		3.1.2.3 The production batch shall be associated with (i) a single product or (ii) a group of products, which consist of the same or similar input raw material according to, for example species, sort, etc.	This requirement is not applicable to organizations where the production site cannot be clearly identified, e.g. forest contractors, transportation, trade, etc.	Documentation: DMI PRPD PEFC Chain of Custody Manual , dated August 17, 2010 <ul style="list-style-type: none"> • Page 9, section 4.1 General Requirements: <ul style="list-style-type: none"> ○ All Softwood chips are delivered to the South West Chip Pile at the Daishowa Marubeni International Ltd, Peace River Pulp Division, Pulp Mill site. Hardwood chips are delivered to the North East, North West and South East Chip Piles 	N/A	DMI has identified the production site. This specific requirement has been met.	No issues noted with this specific requirement.
		3.1.2.5 The maximum time period for the definition of the production batch is three months.		Documentation: DMI PRPD PEFC Chain of Custody Manual , dated August 17, 2010 <ul style="list-style-type: none"> • Page 9, section 4.1 General Requirements: <ul style="list-style-type: none"> ○ PRPD uses the calendar year to define quarters January 1 – March 31 is the first quarter of a year and October 1 to December 31 is defined as the fourth quarter 	Y	DMI has defined the production batch as quarters within a given year which ensures the maximum time period is three months. This specific requirement has been met.	No issues noted with this specific requirement.
		3.1.2.6 The organization shall identify all products (included in the production batch, which is covered by the chain of custody) by a batch identifier through which it is possible to determine the production batch to which the products	Physical on-product identification of the production batch is not required if the certification percentage is applied to sold / transferred products as the production batch	DMI uses the percentage-based method.	N/A	A review of documentation confirmed DMI uses the percentage-based method. Physical on-product identification is not required. This specific requirement has been	N/A



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		belong.	identification is evident from the sale / delivery documents.			met.	
3.2 Identification of the origin	3.2.1 Identification at delivery level The organization shall identify and verify the category of the origin of all procured raw material. Associated documents with each delivery of raw material shall include at least: (a) supplier identification, (b) quantity of delivery, (c) date of delivery / delivery period / accounting period, (d) category of the origin including percentage of certified raw material included in the certified product.			Documentation: <ul style="list-style-type: none">• LIMS database• TM9 documentation (mill yard scales)• 2011 Source Summary spreadsheet for the period May 2010 to April 2011• SW Chip Deliveries spreadsheet• Chip Pile Deliveries spreadsheet	Y	DMI has a system in place to ensure the company meets Alberta government regulatory requirements. No fibre can enter the Pulp Mill or satellite yard unless the delivery has a TM 9 load slip. Deliveries without a TM 9 cannot be received into the mill and are rejected by the scale house. This specific requirement has been met.	No issues noted with this specific requirement.
	3.2.2 Identification at supplier level The organization shall require from all suppliers of the certified raw material documentation, which proves that the criteria set for the supplier of the certified raw material have been met.	Note: The criteria for suppliers of certified raw material are specified by (i) the relevant forest certification or labelling scheme if the chain of custody is implemented for the purposes of usage labels and/or declarations of the scheme or by (ii) the organization itself if the chain of custody is implemented for the		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none">• Page 8, Section 2.2 Definitions states "Certified Raw Material: Raw Material whose origin is covered by the chain of custody declarations - coming from forestry operations which are third party certified to the following forestry standards"<ul style="list-style-type: none">○ CSA Z809○ SFI• Certification letters• Certificates	Y	A review of letters received and also a review of company websites showing their certification status or certificates. Also reviewed FPAC report to August 2011 which showed certification status in Alberta. This specific requirement has been met.	No issues noted with this specific requirement.



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			purposes of the organization's own label and/or declaration.	http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/documents/CSA_Z809_Certificate_2009.pdf http://www.certificationcanada.org/documents/status_reports/AB%20SFM%20Status%20Report%202011%20Mid-year%20Aug2_11.pdf			
	3.3 Calculation of the certified percentage	<p>3.3.1 The organization shall calculate the certification percentage separately for each production batch according to the following formula:</p> $Pc [\%] = (Vc / Vc + Vo) \times 100$ <p>Pc - Certification percentage Vc - Certified raw material Vo - Other raw material</p>	<p>The categories of the origin of raw material included in the calculation formula are specified either by</p> <p>(i) the relevant forest certification or labelling scheme if the chain of custody is implemented for the purposes of usage labels and/or declarations of the scheme or by</p> <p>(ii) the organization itself if the chain of custody is implemented for the purposes of the organization's own label and/or declaration.</p> <p>A forest certification and/or labelling scheme or the organization itself (see note 1) can define criteria for neutral raw material. Therefore, the total volume of the raw material is the sum of certified raw material, neutral raw material and other raw material. (Vt=Vc+Vo+Vn; where Vt is total raw material and</p>	<p>Documentation:</p> <p>DMI PRPD PEFC Chain of Custody Manual, August 17, 2010</p> <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Methods, 4.1 General Requirements, Calculation of the certified percentage SDP-QC.130-030 PEFC CoC Reporting Process LIMS database 2011 Source Summary spreadsheet for the period May 2010 to April 2011 SW Chip Deliveries spreadsheet Chip Pile Deliveries spreadsheet PEFC SW Certified Pulp Summary spreadsheet dated May 6, 2011 PEFC HW Certified Pulp Summary spreadsheet dated May 6, 2011 	Y	<p>The values for the calculations were generated from the LIMS database which provided inventory and tracking capability.</p> <p>Chip deliveries were downloaded for each production batch as per the production batch definition.</p> <p>The certified wood was calculated in Bone Dry Tonnes (BDt) based on the source of origin of the chips (i.e. % certified raw material).</p> <p>A review of a number of spreadsheets verified how the certified percentage was calculated based on deliveries of certified raw material.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
			Vn neutral raw material).				
		3.3.2 The organization shall calculate the certification percentage based on a single measurement unit used for all raw material covered by the calculation. In case of conversion to the single measurement unit used for the calculation purposes, the organization shall use only official conversion ratios and methods. If a suitable official conversion ratio does not exist, the organization shall define and use a reasonable and credible internal conversion ratio.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> SDP-QC.130-030 PEFC CoC Reporting Process <i>SW Chip Deliveries</i> spreadsheet <i>Chip Pile Deliveries</i> spreadsheet <i>2011 Source Summary</i> spreadsheet for the period May 2010 to April 2011 	Y	DMI converts all raw material into Bone Dry Tonnes (BDT) and the conversion is done for coniferous and deciduous sources and is categorized as either softwood (SW) or hardwood (HW) depending on the species. The conversion ratio for chip deliveries was based on the Chip Weight Conversion Methodology and this conversion ratio was approved by the Alberta government for reporting purposes. A rigorous sampling program ensured the accuracy of the conversions. This specific requirement has been met.	No issues noted with this specific requirement.
		3.3.3 If the procured raw material includes only a proportion of certified raw material, then only the quantity corresponding to the actual certification percentage claimed by the supplier can enter the calculation formula as certified raw material. The rest of that raw material shall enter the calculation as other raw material.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> SDP-QC.130-030 PEFC CoC Reporting Process <i>SW Chip Deliveries</i> spreadsheet <i>Chip Pile Deliveries</i> spreadsheet <i>2011 Source Summary</i> spreadsheet for the period May 2010 to April 2011 	Y	A review of the certified raw material calculations verified DMI only included a percentage based on the amount of certified raw material over the total raw material deliveries. This specific requirement has been met.	No issues noted with this specific requirement.
		3.3.4 The organization shall calculate the certification		Documentation:	Y	DMI has chosen the simple percentage method in the	No issues noted with this specific



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		percentage either as: (a) simple percentage or (b) rolling average percentage.		<i>DMI PRPD PEFC Chain of Custody Manual</i> , August 17, 2010 <ul style="list-style-type: none"> SDP-QC.130-030 PEFC CoC Reporting Process 		certification calculations. Evidence reviewed under other elements supported this opinion. This specific requirement has been met.	requirement.
		3.3.5 The organization applying the simple certification percentage shall use in the calculation raw material included in the specific production batch for which the certification percentage is calculated. The maximum time for the calculation period in case of simple certification percentage is equivalent to the maximum time period defined for the production batch and shall not exceed three months.		Documentation: <i>DMI PRPD PEFC Chain of Custody Manual</i> , dated August 17, 2010 <ul style="list-style-type: none"> Page 9, section 4.1 General Requirements: <ul style="list-style-type: none"> PRPD uses the calendar year to define quarters January 1 – March 31 is the first quarter of a year and October 1 to December 31 is defined as the fourth quarter PEFC SW Certified Pulp Summary spreadsheet dated May 6, 2011 PEFC HW Certified Pulp Summary spreadsheet dated May 6, 2011 	Y	DMI uses the definition provided in the manual which stated the calculations were done on a quarterly basis and would not exceed three months. A review of numerous spreadsheets by the auditor verified the three month time period. This specific requirement has been met.	No issues noted with this specific requirement.
		3.3.6 The organization applying rolling average percentage shall calculate the certification percentage for the specific production batch using the quantity of raw material procured in the specified previous time period. The total maximum time for the rolling average calculation shall not exceed 12 months.	The organization which has chosen 12 months rolling average calculates the certification percentage from the quantity of raw material procured in the previous 12 months.	Refer to response to Element 3.3.5 in this section for details on audit evidence.	N/A	Refer to response to Element 3.3.5 in this section for details on auditor opinion.	N/A
	3.4 Transfer of the calculated percentage to the outputs	3.4.1 Average percentage method The organization applying average percentage method	No minimum threshold is set to use the average percentage method. However, an individual forest certification or	Documentation: <i>DMI PRPD PEFC Chain of Custody Manual</i> , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Method, 4.1 General Requirements, bullet 4 Sale Transfer of Products states 	N/A	DMI did not choose the average percentage method. Evidence reviewed under other elements supported this opinion.	N/A





Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		shall use the certification percentage for all the products covered by the production batch for which the calculation has been carried out.	labelling scheme can set up a minimum for usage of its label and / or declaration. If the certification percentage for the production batch is e.g. 54 % then all products covered by this production batch can be sold as certified products including 54 % percent of certified raw material.	<i>"PRPD will use the volume credit method for assigning pulp produced from certified chip suppliers"</i>		This specific requirement has been met.	
	3.4 Transfer of the calculated percentage to the outputs 3.4.2 Volume credit method	3.4.2.1 The organization applying volume credit method shall transfer the certification percentage into the volume credit in the single measurement unit of the output products of the production batch. The volume credit shall be distributed to the output products in a way that the certified products will be considered as including 100 % of certified raw material.	If the certification percentage for the production batch consisting of 100 tonnes of output products is e.g. 54 % then 54 tonnes of the output products can be sold as certified products including 100 % of certified raw material.	Documentation: <i>DMI PRPD PEFC Chain of Custody Manual</i> , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Method, 4.1 General Requirements, bullet 4 Sale Transfer of Products states <i>"PRPD will use the volume credit method for assigning pulp produced from certified chip suppliers"</i> SDP-QC.130-030 PEFC CoC Reporting Process PEFC SW Certified Pulp Summary spreadsheet dated May 6, 2011 PEFC HW Certified Pulp Summary spreadsheet dated May 6, 2011 	Y	DMI has developed a process within the Standard Department Procedure (Quality Control) and the accompanied certified pulp summary spreadsheets to maintain a volume credit account to apply to output products. This specific requirement has been met.	No issues noted with this specific requirement.
		3.4.2.2 The organization, which is not able to define (i) a single measurement unit for all output products of the production batch or (ii) which included in the production batch products with different ratios between input raw material volume and output product volume, shall transfer		Refer to response to Element 3.4.2.1 in this section for details on audit evidence.	N/A	Refer to response to Element 3.4.2.1 in this section for details on auditor opinion.	N/A



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		the certification percentage into volume credit separately for the products with different measurement unit or the input/output ratio.					
		3.4.2.3 The organization can cumulate the volume credit by creating a credit account, which can be used for the next production batches. The credit account shall be established respecting chapter 3.4.2.2.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Method, 4.1 General Requirements, bullet 4 Sale Transfer of Products states "PRPD will use the volume credit method for assigning pulp produced from certified chip suppliers" SDP-QC.130-030 PEFC CoC Reporting Process PEFC SW Certified Pulp Summary spreadsheet dated May 6, 2011 PEFC HW Certified Pulp Summary spreadsheet dated May 6, 2011 	Y	DMI has created an accounting of certified chips and the spreadsheets reviewed by the auditor verified the credit account was created. This specific requirement has been met.	No issues noted with this specific requirement.
		3.4.2.4 The total quantity of credits cumulated at the credit account cannot exceed the sum of credits entered into the credit account during the last twelve months.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 8, Section 2.0 General, 2.1 Scope, bullet d Tracking Mechanism of the Final Product states "the PRPD technical department is responsible for communicating with the marketing groups to ensure that end users whose pulp is certified to the PEFC CoC are tracked and to update the volume credit account to ensure that no more pulp is sold as PEFC certified than the certified volume of incoming chips will produce" SDP-QC.130-030 PEFC CoC Reporting Process PEFC SW Certified Pulp Summary spreadsheet dated May 6, 2011 PEFC HW Certified Pulp Summary spreadsheet dated May 6, 2011 	Y	DMI has identified the risk assigning more pulp than the certified chip supply. Tracking methods within certified pulp spreadsheets and communications with marketing groups provide the auditor with assurance that cumulated credits do not exceed sum of credits. This specific requirement has been met.	No issues noted with this specific requirement.



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
				<ul style="list-style-type: none"> PEFC Credit Report (by quarter) 			
3.5 Sale of products		3.5.1 When the organization sells or transfers the certified products, the organization shall provide the customer with a document verifying the compliance with the chain of custody requirements.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Method, 4.1 General Requirements, bullet 3 Sale of Products states “When the Peace River Pulp Division sells or transfers the certified products, the organization shall provide the customer with a document verifying the compliance with the chain of custody requirements” Shipping reports PEFC export report 	Y	DMI has one customer and as such, the tracking and transport documents were used to verify these requirements. The shipping and export reports reviewed verified that the information requirements provided to the customer were being met.	No issues noted with this specific requirement.
		3.5.2 The organization shall ensure that documentation for each delivery of the certified products clearly states at least the following information: (a) organization’s identification, (b) quantity of delivery, (c) date of delivery / delivery period / accounting period (d) category of the origin (including actual percentage of certified raw material included in the certified product		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.0 Percentage-Based Method, 4.1 General Requirements, bullet 3 Sale of Products states “Peace River Pulp Division will ensure that documentation for each delivery of the certified products clearly states at least the following information: a) organizations identification, b) quantity of delivery, c) date of delivery/delivery period/accounting period, d) category of origin (including actual percentage of raw material included in the certified product” Shipping reports PEFC export report 	Y	DMI has one customer and as such, the tracking and transport documents were used to verify these requirements. The shipping and export reports reviewed verified that the information requirements provided to the customer were being met.	No issues noted with this specific requirement.
		3.5.3 If the organization uses the logo, both on-product and off-product usage shall be carried out according to the terms and conditions of the			The organization does not use the logo for on-product and off-product use.	N/A	DMI has one customer and as such, the tracking and transport documents were used to verify these requirements were being



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		contract for the logo usage entered into by the user and the owner of the logo's copyright or his / her authorized agent.				met.	
3.6 Controversial sources		3.6.1 The organization shall establish adequate measures to ensure that the certified products do not include raw material from controversial sources.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.1 bullet 4 Controversial Sources 	Y	The PEFC COC manual specified a number of methods that would be used to ensure certified products do not include raw materials from controversial sources. Responses to elements below in this section provide additional evidence. This specific requirement has been met.	No issues noted with this specific requirement.
		3.6.2 The organization shall require from all suppliers of the forest based raw material, which is not classified as certified raw material, at least a signed self-declaration that the supplied raw material does not originate from a controversial source. The organization, which has signed contracts with its suppliers, shall include such a declaration in the contracts.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.1 bullet 4 Controversial Sources states "the Peace River Pulp Division will require, from all suppliers of the forest based raw material, which is not classified as certified raw material, at least a signed self declaration that the supplied material does not originate from a controversial source" Other evidence: <ul style="list-style-type: none"> LIMS database TM9 documentation (mill yard scales) Certification letters received/ contracts with suppliers 2011 Source Summary spreadsheet for the period May 2010 to April 2011 	Y	The auditor reviewed documentation and records that confirmed either letters of declarations or contracts with declaration included. This specific requirement has been met.	No issues noted with this specific requirement.
		3.6.3 The organization shall evaluate the potential risk of procuring raw material from controversial sources and	The potential risk evaluation carried out by the organization should be based on the regional		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 10, Section 4.1 bullet 4 Controversial Sources 	Y	DMI completed a Controlled Wood Risk assessment for its entire district of origin. Auditor confirmed DMI 2010 risk



Section	Requirement	Specific Requirement	Additional Information	Audit Evidence	Meets Standard (Y/N)	Auditor Opinion	Gap Identification
		establish a sampling based program of second or third party verification of the suppliers' self-declarations if a high risk exists that raw material originates from controversial sources.	/ country level.	<p>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.8 dated August 12, 2010</p> <ul style="list-style-type: none"> Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia (assessments completed June 7, 2010) <p>FSC website: http://info.fsc.org/PublicCertificateDetails?id=a0240000005sUX6AAM</p> <p>DMI website: http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/controlled_wood.html</p> <p>DMI website (2010 external FSC CW & COC audit report): http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/documents/2010_FSC_Controlled_Wood_CoC_Periodic_Assessment_Report.pdf</p>		<p>assessments posted on the FSC website. DMI also posts risk assessments on their external website.</p> <p>Auditor confirmed the 2010 external audit completed by the FSC accredited certification body supported the auditor opinion.</p> <p>This specific requirement has been met.</p>	
		3.6.4 The organization procuring raw material originating from threatened and endangered species classified by CITES shall follow all the regulations defined by CITES and other international as well as national legislation.		<p>Forest Stewardship Council (FSC) Controlled Wood & Chain of Custody Manual, Revision 1.8 dated August 12, 2010</p> <ul style="list-style-type: none"> Appendix 4 Controlled Wood Risk Assessments Alberta & British Columbia (assessments completed June 7, 2010) <p>FSC website: http://info.fsc.org/PublicCertificateDetails?id=a0240000005sUX6AAM</p> <p>DMI website: http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/controlled_wood.html</p> <p>DMI website (2010 external FSC CW & COC audit report): http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/documents/2010_FSC_Controlled_Wood_CoC_Periodic_Assessment_Report.pdf</p>	Y	<p>The auditor reviewed the Controlled Wood Risk assessment for its entire District of Origin and threatened and endangered species classified by CITES was part of the assessment.</p> <p>Reviewed the list of tree species in Appendices I to III. The tree species on the CITES list did not exist within the District of Origin.</p> <p>The risk assessment process gave the auditor additional assurance that DMI PRPD met this requirement (deemed as low risk).</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.



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PEFC Council Technical Document Annex 4 Section 4: Minimum management system requirements	4.1 General requirements	The organization shall operate a management system in accordance with the following elements of this standard, which ensure correct implementation, and maintenance of the chain of custody process. The management system shall be appropriate to the type, range and volume of work performed.	An organization's quality (ISO 9001:2000) or environmental (ISO 14001:1996) management system can be used to meet the minimum requirements for the management system defined in this standard.	Documentation: DMI Production Business Unit Quality Management System Manual , June 8, 2009 DMI website: http://www.dmi.ca/about_dmi/dmi_in_alberta/mill_certification.html http://www.dmi.ca/about_dmi/dmi_in_alberta/documents/ISO90012008CertificateExpFeb2012.pdf	Y	DMI PBU has developed and implemented a QMS which met the requirements of a management system. The DMI website provided a statement on the QMS and the QMS certificate was readily available. This specific requirement has been met.	No issues noted with this specific requirement.
	4.2 Responsibilities and authorities	4.2.1.1 The organization's top management shall define and document its commitment to implement and maintain the chain of custody requirements in accordance with this standard. The organization's commitment shall be made available to the organization's personnel, suppliers, customers, and other interested parties.		Documentation: DMI Production Business Unit Quality Management System Manual issued June 8, 2009 <ul style="list-style-type: none">Page 4, Section One General Information, Corporate Commitment DMI website: http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/ems/documents/QualityPolicy.pdf	Y	The corporate commitment has been defined and documented in the QMS manual. The quality policy was posted on the DMI website which made it available to all parties. The quality policy was also posted at the mill and FRBU offices. This specific requirement has been met.	No issues noted with this specific requirement.
	4.2.1 Management responsibilities	4.2.1.2 The organization's top management shall appoint a member of the management who, irrespective of other responsibilities, shall have overall responsibility and authority for the chain of custody.		Documentation: DMI Production Business Unit Quality Management System Manual , June 8, 2009 <ul style="list-style-type: none">Page 15, Section 5.5 Responsibility, Authority, and Communication	Y	The Senior Advisor, Technical Services has been assigned the responsibility for the QMS. The responsibility for this Standard was also shared with the FRBU EMS Coordinator as there is interaction with FRBU in relation to fibre sourcing. This specific requirement has been met.	No issues noted with this specific requirement.



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		4.2.1.3 The organization's top management of the organization shall carry out a regular periodic review of the organization's chain of custody and its compliance with the requirements of this standard.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 11, Section 5.2.1 Responsibilities and authorities for chain of custody states "the Peace River Pulp Division's top management of the Organization shall carry out a regular periodic review of the Organization's Chain of Custody and it compliance with the requirements of this standard: PRPD's Quality Management System is reviewed quarterly by the Operating Committee. The PEFC CoC is included as an agenda item" 	Y	A review of the Q1 Operating Committee meeting minutes May 2010 verified internal QMS audit reviewed by top management. This specific requirement has been met.	No issues noted with this specific requirement.
	4.2 Responsibilities and authorities	4.2.2 Responsibilities and authorities for chain of custody The organization shall identify personnel performing work effecting the implementation and maintenance of chain of custody and establish and set responsibilities and authorities relating to chain of custody process: (a) raw material procurement and identification of the origin, (b) product processing covering physical separation or percentage calculation and transfer into output products, (c) product sale and labelling, (d) record keeping, (e) internal audits and non-conformity control.	The responsibilities and authorities for the chain of custody given above can be cumulated.	Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 11, Section 5.2.1 Responsibilities and authorities for chain of custody DMI Production Business Unit Quality Management System Manual , June 8, 2009 <ul style="list-style-type: none"> Page 14-16, Section 5.5 Responsibility, Authority, and Communication 	Y	The PEFC COC manual outlined the FRBU leader (bullet a) and the Senior Advisor Technical Services (bullets b to e) responsible for implementation and maintenance of this Standard. The QMS manual also identified other personnel who have responsibilities which would interact with this Standard. This specific requirement has been met.	No issues noted with this specific requirement.



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	4.3 Documented procedures	<p>The organization's procedures for the chain of custody shall be documented. The chain of custody documentation shall include at least the following elements:</p> <p>(a) description of the raw material flow within the production process,</p> <p>(b) organization structure, responsibilities and authorities relating to chain of custody,</p> <p>(c) procedures for chain of custody process covering all requirements of this standard.</p>		<p>Documentation:</p> <p>DMI PRPD PEFC Chain of Custody Manual, August 17, 2010</p> <ul style="list-style-type: none"> Page 11, Section 5.3 Documented procedures Page 7, Section 2.1 Scope Page 11, Section 5.2 Responsibilities and Authorities and more specifically, 5.2.1 Responsibilities and authorities for chain of custody Page 11, Section 5.3 Documented procedures 	Y	<p>In the PEFC COC manual, the description identified under bullet c) provided the flow path from raw material to final finished product.</p> <p>The PEFC program covered bullets b) and c) throughout the manual and more specifically in the sections identified under documentation.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.
	4.4 Record keeping	<p>4.4.1 The organization shall establish and maintain records to provide evidence of conformity with the requirements and its effectiveness and efficiency. The organization shall keep at least the following records:</p> <p>(a) records of all suppliers of forest based raw material including information which confirms that the requirements at the supplier level are met,</p> <p>(b) records of all purchased forest based raw material including information on its origin,</p> <p>(c) records of all forest based products sold and their claimed</p>		<p>Documentation:</p> <p>DMI PRPD PEFC Chain of Custody Manual, August 17, 2010</p> <ul style="list-style-type: none"> Page 12, Section 5.4 Record keeping <p>Records to be kept included:</p> <ul style="list-style-type: none"> LIMS Database (electronic) Chip and Logging contracts (electronic/paper) Danbie Lot Tracking System (electronic) Files with Summary of Certified Pulp (electronic) Digital Action Tracking System (DATS) database TrAction database DMI PRPD website Paper files stored on Forest Resources Intranet Site 	Y	<p>The PEFC COC manual specified records to be kept for a minimum of five years as per Standard requirements.</p> <p>A review of records verified electronic files and paper files were kept in locations specified in the manual.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.



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		origin, (d) records of internal audits, non-conformities which occurred and corrective actions taken.					
		4.4.2 The organization shall maintain the records for a minimum period of five years.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 12, Section 5.4 Record keeping states “the Peace River Pulp Division will maintain the records for a minimum period of five years” 	Y	The PEFC COC manual specified records to be kept for a minimum of five years as per Standard requirements. A review of records verified electronic files and paper files were kept in locations specified in the manual. DMI received certification in September 2006, therefore all records were available. This specific requirement has been met.	No issues noted with this specific requirement.
	4.5 Resource management	4.5.1 Human resources / personnel The organization shall ensure that all personnel performing work affecting the implementation and maintenance of the chain of custody shall be competent on the basis of appropriate training, education, skills and experience.		Documentation: DMI PRPD PEFC Chain of Custody Manual , August 17, 2010 <ul style="list-style-type: none"> Page 12, section 5.5 Resource Management, Human Resources/Personal Established and maintained a procedure in the DMI Production Business Unit Quality Management System Manual , June 8, 2009 <ul style="list-style-type: none"> Page 19, Section 6.2.2, Competence, Awareness and Training General and associated PRPD-QMSP.17 Established and maintained a procedure in the Forest Resources Environmental Management System & Sustainable Forest Management (EMS & SFM) Manual Revision 1.5 dated July 9, 2010 <ul style="list-style-type: none"> Chapter 8, Competence, Training, and Awareness and 	Y	Training for mill staff is outlined in in the QMS manual and associated procedures and training for FRBU staff is outlined in the Forest Resources Training Matrix. The auditor reviewed the training identified for all staff implementing the Standard and the Digital Action Tracking System (DATS) database training records. The identified training met Standard requirements.	No issues noted with this specific requirement.



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				associated <i>Appendix C - Forest Resources Training Matrix</i>			
		<p>4.5.2 Technical facilities</p> <p>The organization shall identify, provide and maintain the infrastructure and technical facilities needed for effective implementation and maintenance of the organization's chain of custody with the requirements of this standard.</p>		<p>Documentation:</p> <p><i>DMI PRPD PEFC Chain of Custody Manual</i>, August 17, 2010</p> <ul style="list-style-type: none"> Page 12, section 5.5 Resource Management, Technical Facilities states "there is a system in place for routine backup of all electronic files (LIMS data base, Lot Tracking, Procedures, Files with Summary of Certified pulp etc. Paper files required for the system are stored in appropriate filing cabinets" 	Y	<p>The PEFC COC manual specified how records were to be kept including backup as per Standard requirements.</p> <p>A review of records verified electronic files and paper files were kept in locations specified in the manual.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.
	4.6 Inspection and control	<p>4.6.1 The organization shall conduct internal audits at intervals of at least one year covering all requirements of this standard and establish corrective and preventive measures if required.</p>		<p>Documentation:</p> <ul style="list-style-type: none"> QMS internal audit, April 2011 PEFC internal audit, May 2010 <p>http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/documents/2010CoCInternalAuditReport.pdf</p> <ul style="list-style-type: none"> PEFC external audit, August 2010 <p>http://www.dmi.ca/about_dmi/dmi_in_alberta/prpd/certification/documents/DMI_2010_PEFC_PA1_Audit_Report.pdf</p>	Y	<p>DMI has conducted internal and external audits pertaining to this Standard during the audit period.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.
		<p>4.6.2 The report from the internal audit shall be reviewed by the organization's top management at least annually.</p>		<p>Documentation:</p> <p><i>DMI PRPD PEFC Chain of Custody Manual</i>, August 17, 2010</p> <ul style="list-style-type: none"> Page 12, section 5.6 Inspection and Control states "the report from the internal audit shall be reviewed by the Peace River Pulp Division's top management at least annually" 	Y	<p>A review of the Q2 Operating Committee meeting minutes July 2010 verified internal audit reviewed by top management.</p> <p>This specific requirement has been met.</p>	No issues noted with this specific requirement.