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

September 8, 2006

Dear Samuel:

**Re: 2006 ISO 14001 Periodic Assessment #2 Audit Report for Daishowa-Marubeni International Ltd.**

Our 2006 ISO 14001 Periodic Assessment #2 Audit Report for Daishowa-Marubeni International Ltd. is attached. The report documents the results of the audit that took place during the period September 6 – September 8, 2006.

As communicated to you in the audit notification letter, 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., 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,

Kerri Brownie, RPF(B.C), EMS(A)  
Senior Assessor  
KPMG Performance Registrar Inc.  
250-514-9487

Enc: 2006 ISO 14001 Periodic Assessment #2 Audit Report



**2006 ISO 14001 Periodic Assessment #2 Audit Report  
for Daishowa-Marubeni International Ltd.**

**September 8, 2006**

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. 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.
<b>Audit Criteria:</b>	ISO 14001:2004
<b>Scope of Registration:</b>	Forest management of deciduous timber including related research and development, stakeholder consultation, planning, harvesting, road development, chipping, processing of hog fuel, satellite yard operations, transportation and storage of fibre, reclamation and reforestation on Daishowa-Marubeni International Ltd.'s Forest Management Agreement Area and Deciduous Timber Allocations
<b>Client Representative:</b>	Samuel Elkins, Forest Program Coordinator
<b>Assessment Number:</b>	#2438 – ISO 14001:2004

## B. Document Review Findings

This was a limited scope surveillance audit against selected elements of the ISO 14001 standard. As such, no formal document review was required in advance of the audit.

## C. Audit Details

<b>Type of Audit:</b>	Surveillance audit (Periodic Assessment #2)
<b>Date(s) of Document Review:</b>	May 10 – 12, 2005
<b>Date(s) of Surveillance Audit:</b>	Documentation Review: May 10 – 12, 2005 Implementation Assessment: August 23 – 26, 2005 Periodic Assessment #1: February 28 – March 3, 2006 <b>Periodic Assessment #2: September 6 - 8, 2006</b>
<b>Date of Next Assessment:</b>	September 5 - 7, 2007
<b>Audit team:</b>	Lead auditor: Kerri Brownie
<b>Audit Report Distribution:</b>	Daishowa-Marubeni International Ltd. KPMG PRI audit files
<b>Audit objective(s):</b>	The objective of the audit was to evaluate the environmental management system at Daishowa-Marubeni International Ltd., its implementation, effectiveness and conformance with the requirements of ISO 14001.
<b>Audit scope:</b>	The scope of the audit included: The elements of ISO 14001 outlined in the audit plan. Activities conducted under the Company's management system during the period March 3, 2006 – September 6, 2006.

<b>Audit sample size:</b>	Number of field sites visited during the audit: Roads: 2 (in-block) Harvesting: 6 (3 active, 3 completed) Silviculture: 3 Hauling: 4 Satellite Yards: 1
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## D. Audit Findings

### Good Practices

The following good practices were noted during the audit:

1. All contractors are required to inform the EMS Coordinator of fuel tanks > 450 litres that are in use on their operations. The EMS Coordinator is developing a database to track the tanks and their certification status.
2. Conditions observed on the ground during the field audit were consistent with operational plans (i.e. there were no findings relating to operational issues).

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

At the time of this assessment there were a total of 5 open minor non-conformities from previous audits (2 from the implementation audit and 3 from the first surveillance audits). The auditor reviewed the implementation of the action plans developed by Daishowa-Marubeni International Ltd. to address these issues, and found that they had been effectively implemented for all of the non-conformities. **As a result, 2438-NC-IA-01, 2438-NC-IA-03, 2438-NC-A1-01, 2438-NC-A1-02 and 2438-NC-A1-03 have been closed.**

In addition, there were 4 opportunities for improvement from previous audits. The auditor reviewed the actions associated with these opportunities for improvement to determine whether they had been effectively dealt with and determined that **2438-OFI-IA-01, 2438-OFI-A1-01, 2438-OFI-A1-02 had been dealt with and have been closed.** At the time of this assessment, opportunity for improvement 2438-OFI-A1-03 (relating to the reporting of nonconformities and corrective actions in order to identify trends and the effectiveness of action items) had not been addressed, therefore, finding **2438-OFI-A1-03 remains open** and will be assessed at the next periodic assessment.

### Major non-conformities

No major non-conformities were identified during the audit.

### Minor non-conformities

No minor non-conformities were identified during the audit.

## Opportunities for improvement

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement:** 2438-OFI-A2-01

**Standard/Element(s):** 4.5.5 Internal Audit

**Client Procedure:** Forest Resources Manual EMSP-4.5.5

A review of the August 2006 internal audit report and associated corrective action plans identified the following weaknesses:

- the audit report does not include a description of the number and types of field sites visited to demonstrate that sufficient and appropriate audit effort was expended to assess implementation of the EMS;
- the internal auditors findings have been appended to KPMG external audit findings, rather than being documented as internal audit findings. For example, where the internal auditor identified weaknesses with emergency preparedness and response, these were documented in the audit report as pertaining to an existing open finding from KPMG's first surveillance audit (finding 2438-NC-IA-03). As a result there is a potential that action plans may not address findings related to a particular contractor or site where findings were identified;
- corrective actions have not been implemented by the assigned due dates, for example the corrective actions for finding NC-IA2006-01 (relating to hog piles located on private land) have not been implemented to date.

2. **Opportunity for improvement:** 2438-OFI-A2-02

**Standard/Element(s):** 4.5.3 Nonconformity, corrective and preventive action

**Client Procedure:** Forest Resources Manual EMSP-4.5.3

A review of the current Outstanding Harvest Activities report indicated that there are a number of activities that have been assigned an 'unsatisfactory' status with outstanding action items. Some of these issues have the potential for environmental impact, e.g. crossings on three blocks were required to be pulled as noted in a March 2005 inspection, the report indicates that these actions have not yet been taken. In addition, the staff responsibilities for these issues have not been updated, the current report continues to list ex-employees as having responsibilities.

3. **Opportunity for improvement:** 2438-OFI-A2-03

**Standard/Element(s):** 4.3.3 Objectives, Targets and Programme(s)

**Client Procedure:** Forest Resources Manual EMSF-4.3.1

A review of the August 01, 2006 version of the objectives and targets noted that staff responsibilities are outdated, the document still lists staff that have left the company as having responsibilities for implementing some objectives and targets.

In addition, a review of the status of the implementation of actions to achieve objectives and targets noted that there is an opportunity to improve the clarity of the documentation of the status of implementation.

4. **Opportunity for improvement:** 2438-OFI-A2-03

**Standard/Element(s):** 4.4.7 Emergency Preparedness & Response  
**Client Procedure:** Forest Resources Manual EMSP-4.4.7

The following weaknesses were identified during a review of emergency preparedness procedures and emergency preparedness at active harvest sites:

- spill kit requirements in the 2006 Forest Resources Field Guide require white AND grey absorbent pads whereas operationally the organization has determined that grey absorbent pads are sufficient. The majority of spill kits examined at active harvest sites contained only grey pads;
- a feller buncher operator did not have a spill kit on his machine (DTLP 520003, Estabrook).

5. **Opportunity for improvement:** 2438-OFI-A2-01

**Standard/Element(s):** 4.4.6 Operational Control  
**Client Procedure:** Forest Resources Manual EMSP-4.4.6

Field site visits to active harvest sites and a satellite chipping yard identified the following weaknesses in the implementation of operational controls:

- minor leaks of diesel or hydraulic fluid were observed at three locations: a trailer mounted fuel tank was leaking minor amounts of diesel (E15-73-19-5, Allwood Fibre Ltd.); a loader was leaking minor amounts of hydraulic fluid (Chinchaga satellite chipping yard); the disposal bin for used oil positioned had minor leaks of oil, grey absorbent pads have been positioned under the bin, however these are soiled and no longer effective (Chinchaga satellite yard);
- garbage was observed around camp trailers at the Chinchaga satellite yard.

## Audit conclusions

The audit found that Daishowa-Marubeni International Ltd.'s environmental management system continues to be effectively implemented. As a result, a decision has been reached by the lead auditor to recommend that Daishowa-Marubeni International Ltd. continue to be registered to the ISO 14001 standard.

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

No non-conformities were identified during this assessment, therefore, written corrective action plans are not required.

If Daishowa-Marubeni International Ltd. chooses to document corrective action plans for the opportunities for improvement identified during this assessment, a template can be provided for this purpose. The actions that Daishowa-Marubeni International Ltd. has taken to address the opportunities for improvement identified during this assessment will be assessed at the next periodic assessment.

## **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 remaining and new corrective action plans.
2. EMS implementation at active camps.
3. Maintenance of off-block roads and stream crossings.