



**KPMG Performance Registrar Inc.**

Box 10426, 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
(604) 691-3401  
Telefax (604) 691-3031  
www.kpmg.ca

Mr. Al Schneider  
Advisor, Continuous Improvement  
Daishowa-Marubeni International Ltd.  
Peace River Pulp Division  
Forest Resources Business Unit  
Postal Bag 6500, Pulp Mill Site  
Peace River, Alberta  
T8S 1V5

February 28, 2007

Dear Al:

**Re: PEFC Chain of Custody Surveillance Audit (A1) Report for Daishowa-Marubeni International Ltd. – Peace River Pulp Division**

Our PEFC Chain of Custody Surveillance Audit (A1) Report for Daishowa-Marubeni International Ltd. – Peace River Pulp Division (DMI-PRPD) is attached. The report documents the results of the audit that took place during the period February 27-28, 2007.

As communicated to you in the audit notification letter, you are required to submit corrective action plans to address all new 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 DMI-PRPD, 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,

Dave Bebb, RPF (BC & Alta), CEA(SFM), EMS(LA)  
*Vice president, Registration Operations*  
*KPMG Performance Registrar Inc.*  
*604-691-3451*

**Enc:** PEFC Chain of Custody Surveillance Audit (A1) Report



**PEFC Chain of Custody Surveillance Audit (A1) Report  
for  
Daishowa-Marubeni International Ltd.  
Peace River Pulp Division**

**February 28, 2007**

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.



## Table of Contents

A.	Client Information.....	1
B.	Document Review Findings.....	1
C.	Audit Details .....	1
D.	Audit Findings.....	2
E.	Corrective Action Plans .....	4
F.	Focus Areas for Next Audit Visit .....	4

## A. Client Information

<b>Client Name:</b>	Daishowa-Marubeni International Ltd. – Peace River Pulp Division (DMI-PRPD)
<b>Audit Criteria:</b>	PEFC Chain of Custody Standard (Annex 4)
<b>Scope of Registration:</b>	The PEFC chain of custody system developed and maintained by DMI-PRPD to track and report on the certified content of the softwood chips procured from third parties and the associated softwood pulp products produced from those softwood chips.
<b>Client Representative:</b>	Al Schneider, Advisor, Continuous Improvement
<b>Assessment Number:</b>	#2438.1 – PEFC Chain of Custody

## B. Document Review Findings

No formal document review was completed in advance of the audit. As a result, there were no document review findings that required follow-up by the audit team.

## C. Audit Details

<b>Type of Audit:</b>	Surveillance Audit (A1)
<b>Date(s) of Document Review:</b>	NA
<b>Date(s) of Audit:</b>	February 27-28, 2007
<b>Date of Next Assessment:</b>	August 28-30, 2007
<b>Audit team:</b>	Lead auditor: Dave Bebb Audit team members: NA
<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 chain of custody system at Daishowa-Marubeni International Ltd. – Peace River Pulp Division, its implementation, effectiveness and conformance with the requirements of PEFC Annex 4.
<b>Audit scope:</b>	The scope of the audit included: The elements of PEFC Annex 4 outlined in the audit plan. Activities conducted under the Company's chain of custody system during the period September 8, 2006 – August 28, 2007. A site visit to the DMI-PRPD corporate/woodlands office

## D. Audit Findings

### Good Practices

The following good practices were noted during the audit:

1. The Operation has made good progress towards addressing the findings of the September 2006 PEFC CoC certification audit.
2. The chain of custody system has now been incorporated within the Operation's ISO 9001 QMS, and is managed as a component of that system.

### Follow-up on open non-conformities and opportunities for improvement from previous audits

At the time of the February 27-28, 2007 surveillance audit there were a total of 7 open minor non-conformities and 3 opportunities for improvement from previous audits. The auditor reviewed the Operation's implementation of the action plans that were developed to address these issues, with the result that 4 out of the 7 previously identified minor non-conformities have now been closed. In addition, the Operation has satisfactorily addressed the issues that gave rise to the 3 previously identified opportunities for improvement.

The current status of the 7 non-conformities identified during the September 2006 PEFC CoC certification audit is as follows:

**2438.1-NC-IA-01** (internal audit) – Although a limited scope internal audit of the PEFC CoC system was conducted in September 2006, a full scope internal audit of the PEFC CoC system has yet to be completed. As a result, this non-conformity remains **open**.

**2438.2-NC-IA-02** (management review) – Although management reviews are now conducted on a quarterly basis and there is evidence to indicate that these are taking place, a management review that considers the results of the full scope internal audit outlined above has yet to take place. As a result, this non-conformity remains **open**.

**2438.1-NC-IA-03** (representation letter) – 2006 representation letters have now been received from the large majority of chip suppliers. In addition, the representation letters from those supplier of certified fibre (CSA Z809 and SFI) now specifically assign the certification credits to DMI-PRPD. As a result, this non-conformity has been **closed**.

**2438.1-NC-IA-04** (overall responsibility for the PEFC CoC system) – Overall responsibility for the PEFC CoC system has now been assigned to the Senior Advisor Technical Services. As a result, this non-conformity has been **closed**.

**2438.1-NC-IA-05** (PEFC CoC system documentation) –The previously identified weaknesses in PEFC CoC system documentation (e.g., lack of clarity around whether or not a volume credit approach is being used, etc.) have been addressed. As a result, this non-conformity has been **closed**.

**2438.1-NC-IA-06** (sales document indicating compliance with PEFC CoC requirements) – QMS document SPD-QC.100-200 has now been revised to require that the following information be provided to the DMI marketing group: (1) identify producer as DMI-PRPD, (2) quantity of delivery, (3) delivery period, and (4) category of origin (i.e., % certification status). Review of a February 26, 2007 letter to the DMI marketing group indicated that most of the required information had been supplied to them. However, the letter and accompanying documentation:

- Did not include any information regarding DMI-PRPD's PEFC CoC certification (e.g., PEFC CoC certificate number and expiry date).
- Included incorrect information regarding the type of sustainable forest management certifications that were applicable to the material shipped to Kimberly-Clark (e.g., an incorrect reference to SFI 2002-2004 and incorrect references to the applicable version of the CSA Z809 standard).
- Was for the 2006 calendar year only, and was supplied to the DMI marketing group after many of the applicable pulp lots had been shipped. NB: The PEFC CoC standard requires that this information be provided with each pulp shipment, rather than as a year-end summary as was the case with the February 26, 2007 letter to the DMI marketing group.

As a result, this non-conformity remains **open**.

**2438.1-NC-IA-07** (controversial sources) – The 2006 representation letters that have now been received from the large majority of chip suppliers included a clear statement that the wood did not originate from controversial sources. As a result, this non-conformity has been **closed**.

## **Major non-conformities**

No new major non-conformities were identified during the audit.

## **Minor non-conformities**

No new minor non-conformities were identified during the audit.

## **Opportunities for improvement**

No new opportunities for improvement were identified during the audit.

## **Audit conclusions**

The audit found that Daishowa-Marubeni International Ltd. – Peace River Pulp Division's chain of custody system continues to be effectively implemented. Full conformance was found in relation to all of the requirements of the PEFC CoC standard included within the scope of the audit, except where noted otherwise in this report. As a result, a decision has been reached by the lead auditor to recommend that DMI-PRPD continue to be registered to the PEFC CoC 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 chain of custody 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 new 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 DMI-PRPD to develop the required corrective action plans will be 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. Follow-up on the implementation of action plans developed to address the remaining non-conformities and opportunities for improvement identified during the September 2006 certification audit. NB: In situations where minor non-conformities remain open for more than 12 months, the lead auditor is required to consider whether it is appropriate to elevate these findings to the level of major non-conformities.
2. Implementation of a full scope internal audit (currently scheduled for March 2007) and a subsequent management review.
3. Documentation provided by the DMI marketing group to customers (e.g., Kimberly-Clark) regarding the percentage of certified raw material included in pulp shipments.
4. Implementation of the Operation's new lot tracking system, and the implication that this has for the tracking of certification credits.
5. Records maintained by DMI-PRPD to support the claims of certified raw material content made by chip suppliers (i.e., supporting data to demonstrate that the claims of certified content included in representation letters from softwood chip suppliers are accurate).