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August 12, 2010

Dear Sam:

**Re: 2010 ISO 14001 Periodic Assessment and CSA Z809 Surveillance Report for
Daishowa-Marubeni International Ltd. – Peace River Pulp Division**

Our 2010 ISO 14001 and Z809-2002 periodic assessment report for Daishowa-Marubeni International Ltd. – Peace River Pulp Division (DMI-PRPD) is attached. The report documents the results of the field audit that took place during the period August 9-12, 2010.

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,

Gregor Macintosh RPF, CEA(SFM)
KPMG PRI

Enc: 2010 ISO 14001 and CSA Z809 Periodic Assessment Report for Daishowa-Marubeni International Ltd. – Peace River Pulp Division.



**2010 ISO 14001 & CSA Z809 Periodic Assessment Audit
Report for
Daishowa-Marubeni International Ltd.
Peace River Pulp Division**

August 12, 2010

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

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|--------------------------------|--|
| Client Name: | Daishowa-Marubeni International Ltd. – Peace River Pulp Division (DMI-PRPD) |
| Audit Criteria: | ISO 14001:2004 and CSA Z809-02 |
| Scope of Certification: | 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). |
| Client Representative: | Samuel Elkins, Continuous Improvement Coordinator |
| Assessment Number: | ISO 14001: #2438 CSA Z809: #2438.02 |

B. Document Review Findings

This was a periodic assessment and therefore no document review was conducted. As a result no corrective actions were required prior to the certification audit taking place.

C. Audit Details

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|--|---|
| Type of Audit: | ISO 14001 Periodic Assessment audit CSA Z809 Scope Expansion and Periodic Assessment Audit |
| Date of Document Review (Scope Expansion) | N/A |
| Date(s) of Audit: | August 9-12, 2010 |
| Date of Next Assessment: | Summer 2011 |
| Audit team: | Lead auditor: Gregor Macintosh Audit team members: Yurgen Menninga |
| Audit Report Distribution: | Daishowa-Marubeni International Ltd. KPMG PRI audit files |
| Audit objective(s): | The objective of the audit was to evaluate the environmental and sustainable forest management (SFM) system at DMI-PRPD, its implementation, effectiveness and conformance with the requirements of ISO 14001 and CSA Z809:2002. In addition the Canfor Grande Prairie operations on the Conifer Timber Quotas P130002, P130004, and P150004 were also assessed for inclusion under the DMI PRPD CSA Z809 SFM plan. These objectives have been met. |

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|---------------------------|--|
| Audit scope: | <p>The scope of the audit included:</p> <ul style="list-style-type: none"> • The elements of the ISO 14001 and CSA Z809 standards outlined in the audit plan. • Activities conducted under the Company’s environmental management system during the period August 17, 2009 – August 9, 2010. • Visits to: (1) the DMI-PRPD woodlands office, (2) various field sites at the DMI PRPD and Canfor GP (CTQ P130002, P130004, and P150004) woodlands operations within the defined forest area. |
| Audit sample size: | <p>Number of field sites visited during the audit:</p> <p>Roads: 15</p> <p>Harvesting: 12 (including 3 Canfor quota units logged in 2009/2010)</p> <p>Silviculture: 6 (including 2 spray blocks: 1 Canfor & 1 DMI)</p> <p>Camps: 1 (1 logging camp – Peace Country Ventures)</p> |
| | |

D. Audit Findings

Good Practices

The following good practices were noted during the audit:

4.4.3 / 7.4.3: The DMI public website continues to server as an efficient means of communicating SFM and related information (CoC, EMS, DFMP, etc.) to the general public.

7.5.2: DMI has implemented use of a real-time database used to track: incidents, training requirements and status, consultation/communications log, and tasks. The system allows for review by supervisors to monitor completion of assigned tasks and training. The database can also function as a document library.

Follow-up on open findings from previous audits

At the time of this assessment there was one open non-conformity from the 2009 audit (NC-PA1-01). The implementation corrective action for this non-conformance was verified and deemed to be acceptable for addressing the non-conformance. This non-conformance is now closed. The action plan from the open non-conformance (NC-IA-01) from the initial certification audit in 2008 was reviewed and this non-conformance is now closed.

Review of the identified opportunities for improvement from the 2009 audit determined that all had action plans developed and owners assigned.

Non-conformities

The 2010 audit did not identify any major non-conformities with respect to the ISO 14001 and CSA Z809 Standards.

The following minor non-conformity was identified.

Non-conformity: 2438.01 / 2438.02 –NC-A2-01
Standard/Element(s): ISO 14001: 4.4.2
CSA Z809: 7.4.2
Client Procedure(s): DMI EPRP

The standards require that contractors working on the Company's behalf are able to demonstrate that their personnel have the requisite training and awareness levels.

However, the following weaknesses were found: (1) the Pine Ridge Logging foreman was not aware of the spill kit requirements or where they were stated, (2) a chipper operator and the maintenance mechanic were not familiar with the difference between the white & grey pads.

Non-conformity: 2438.01 / 2438.02 –NC-A2-02
Standard/Element(s): ISO 14001: 4.4.6 / 4.4.7
CSA Z809: 7.4.6 / 7.4.7
Client Procedure(s): Fuel Management Field Guide, Forest Resources Field Guide

The standards require that the Company establish and maintain documented procedure(s) (e.g., SOPs, WIs, etc.) to control situations where their absence could lead to deviation from the environmental policy, objectives targets, etc.

However, the following weaknesses were found: (1) a chipper did not have a spill kit, (2) spill kits were incomplete i.e. no pads, missing one type of pads, multi-purpose pads were saturated in standing water at the bottom of a barrel-type spill kit, no plug & dyke, no gator (3) two fire extinguishers were not charged, two were last inspected >2 years ago, and several had no date indicating last inspection (4) in the PCV camp, there were leaks from an 1100 litre truck-mounted slip tank as well as from the drip containment reservoir of a large storage tank.

Non-conformity: 2438.01 / 2438.02 –NC-A2-03
Standard/Element(s): ISO 14001: 4.4.6
CSA Z809: 7.4.6
Client Procedure(s): Canfor Ground Rules

The standards require that the Company establish & communicate procedures to control situations in order to meet the environmental policy and objectives, and the Canfor Ground Rules require that all stream crossings are pulled. In one block, there were two crossing on an intermittent stream, and the Canfor post-harvest inspection recorded that ‘all creek crossings are pulled and channels cleaned’.

However, one log crossing was only partly removed - several logs in and adjacent to the channel remained in place, contradicting the inspection comment. Also, even though the filter cloth had been removed, there was soil on top of the logs and in between them, such that the fabric was preventing sediment from entering the stream. .

Non-conformity: 2438.01 / 2438.02 –NC-A2-04
Standard/Element(s): CSA Z809: 7.4.3
Client Procedure(s): SFM Annual Report

The standard requires that the organization make an annual report on its performance in meeting and maintaining the SFM requirements publicly available.

However the audit found that in the two years since its initial registration DMI has yet to produce a full annual report documenting performance against the SFM Indicators.(Note: new deadline for final report on annual SFM performance is Oct 31 2010.)

Non-conformity: 2438.01 / 2438.02 –NC-A2-05
Standard/Element(s): CSA Z809: 7.3.6.1
Client Procedure(s): SFM Plan

The standard requires that organization, working with interested parties in the public participation process at each step, set DFA-specific performance requirements that address all the CSA SFM Elements in Clause 6?

However the audit found that as of the time of the 2010 external audit the review process for PAC for the final VOITs table had consistently missed the 3 deadlines set by DMI. The deadline set now is Oct 1 2010 for final review by PAC at which time DMI will forward to PRI as proof that this has been achieved.

Non-conformity: 2438.01 / 2438.02 –NC-A2-06
Standard/Element(s): ISO 14001: 4.4.6
CSA Z809: 7.4.6
Client Procedure(s): Project Supervision Procedure

The standards require that the organization monitor on a regular basis the activities that demonstrate SFM progress or can have a significant environmental impact. The Project Supervision Procedure requires that active harvest units be inspected at least once a week.

However, a review of several DMI and Canfor blocks harvested in the past year found that most did not meet this inspection frequency. For example, one block that was active for three months had four inspections recorded, and others had gaps of 2-4 weeks.

Opportunities for improvement

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement:** 2438/2438.02-OFI-PA2-01
Standard/Element(s): CSA Z809: 4.6 / 7.6
Client Procedure(s): Internal Audit

The standard requires that the organization's top management, at least annually, reviewed the SFM requirements to ensure that progress towards SFM continues to be suitable, adequate, and effective and 2) that the management review process ensure that the necessary information is collected to allow top management to carry out this evaluation?

The audit found that while the quarterly management meeting (Environmental Steering Committee) were being conducted as required, as of the time of the audit the 2010 internal and compliance audit results had not been reviewed by FRBU Leader or Mill General Manager. Also other than the Continuous Improvement Coordinator, no other member of the FRBU regularly attends the Environmental Steering Committee.

Audit conclusions

The audit found that the DMI-PRPD EMS/SFM system:

- Was in full conformance with the requirements of the ISO 14001 and CSA Z809 requirements included within the scope of the audit, except where noted otherwise in this report;
- Continues to be effectively implemented, and;
- Is sufficient to systematically meet the commitments included within the Company's environmental policy and SFM principles, provided that the system continues to be implemented and maintained as required.

As a result, a decision has been reached by the lead auditor to recommend that DMI-PRPD continue be registered to the ISO 14001 and CSA Z809 standards.

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

The 2010 audit identified 6 findings of minor non-conformance. Therefore, a written corrective action plan is required to be completed and submitted to KPMG PRI. A template will be provided 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 action plans developed by DMI-PRPD to address the open findings identified during the 2010 external audit.
2. Reporting against the 2010/2011 SFM VOITs.