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Mr. Sam Elkins - Continuous Improvement Coordinator

Daishowa-Marubeni International Ltd.
Peace River Pulp Division
Postal Bag 6500, Pulp Mill Site
Peace River, AB T8S 1V5

September 8, 2011

Dear Sam:

Re: 2011 PEFC 2002-2010 Chain of Custody (CoC) Upgrade Audit Report for Daishowa-Marubeni International Peace River Pulp Division & Forest Resources Business Unit

Our 2011 PEFC 2002-2010 CoC Upgrade Audit Report for Daishowa-Marubeni International Peace River Pulp Division is attached. The report documents the results of the audit that took place during the period August 22-26, 2011.

We value the ongoing working relationship that we have with Daishowa-Marubeni International, and appreciate the assistance provided to the audit team by the Company's 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), CF/CFA,
KPMG Forest Certification Services Inc.
250-480-3510

Enc: PEFC 2002-2010 Upgrade Audit Report for Daishowa-Marubeni International PRPD



**PEFC 2002-2010 Chain of Custody
Upgrade Audit Report for
Daishowa-Marubeni International
Peace River Pulp Division**

September 8, 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 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

Client Name:	Daishowa-Marubeni International
Audit Criteria:	PEFC 2002-2010 Chain of Custody
Scope of Registration:	Procurement of fibre and the manufacture of hardwood and softwood pulps.
Client Representative:	Mr. Sam Elkins
Assessment Number:	# 2438.01

B. Document Review Findings

As the DMI PRPD chain of custody program was upgraded to PEFC 2002-2010 Chain of Custody the during a surveillance no document review was conducted.

C. Audit Details

Type of Audit:	Upgrade – PA 2
Date(s) of Document Review:	N/A
Date of Next Assessment:	August 2012
Audit team:	Lead auditor: Gregor Macintosh
Audit Report Distribution:	Daishowa-Marubeni International KPMG PRI audit files
Audit objective(s):	The objective of the audit was to evaluate the chain of custody system at Daishowa-Marubeni International, its implementation, effectiveness and conformance with the requirements of PEFC 2002-2010 Chain of Custody.
Audit scope:	The scope of the audit included: The elements of PEFC 2002-2010 Chain of Custody outlined in the audit plan. Activities conducted under the Company’s chain of custody system during the period August 19, 2010 - August 21, 2011. Visits to the following Company operations: <ul style="list-style-type: none"> • FRBU Office

D. Audit Findings

Good Practices

The following good practice was noted during the audit:

- Continued maintenance of an effective credit tracking system allowing for quarterly reconciliation of credit status.

Follow-up on open non-conformities from previous audits

At the time of this assessment there were no open non-conformities from previous audits as such there were no action plans to verify.

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:** 2438.01-OFI-PA2 -01
Standard/Element(s): PEFC 2002-2010 – Clause 5.1.2.1
Client Procedure: DMI-PRPD PEFC CoC Manual – August 2011

The Standard requires that the organisation shall implement the requirements for the chain of custody process of this standard for the specific product group. The audit observed that while the PEFC CoC manual defines the production batch it does not define the product group.

2. **Opportunity for improvement:** 2438.01-OFI-PA2 -02
Standard/Element(s): PEFC 2002-2010 – Clause 5.1.2.2 & Appendix 2 – 1.3
Client Procedure: DMI-PRPD PEFC CoC Manual – August 2011

The Standard requires that the product group shall be associated with ... (ii) a group of products, which consist of the same or similar input material according to, for example species, sort, etc. The material entering the group of products shall have the same measurement unit or units that are transferable to the same measurement unit.

The audit observed that while the FSC CoC manual defines products as Bleached Kraft Pulp (conifer) and Bleached Kraft Pulp (deciduous), these definitions are not defined in the PEFC CoC Manual.

3. **Opportunity for improvement:** 2438.01-OFI-PA2 -03
Standard/Element(s): PEFC 2002-2010 Appendix 2 – 4.4.3
Client Procedure: DMI-PRPD Chip Supply Agreement

The Standard requires that the organisation shall cancel the supply from those suppliers which have not provided a self-declaration as required by chapter 2 or have not provided information on the supply chain as required by chapter 2.2. The audit observed that while the Chip Supply Agreement has provision for cancellation of the agreement by DMI however, it does not specifically state that failure to provide the annual supplier self-declaration is grounds for termination of the agreement.

4. **Opportunity for improvement:** 2438.01-OFI-PA2 -04
Standard/Element(s): PEFC 2002-2010 Appendix 4 – 2.1
Client Procedure: DMI-PRPD PEFC CoC Manual – August 2011

The Standard requires that the organisation shall demonstrate its commitment to comply with the social, health and safety requirements defined in this standard. 2.2 The organisation shall demonstrate that: (a) workers are not prevented from associating freely, choosing their representatives, and bargaining collectively with their employer, (b) forced labour is not used, (c) workers, who are under the minimum legal age, the age of 15, or the compulsory school attendance age, which ever is higher, are not used, (d) workers are not denied equal employment opportunities and treatment, and (e) working conditions do not endanger safety or health.

The audit observed that while DMI PRPD and DMI corporate policies address these requirements, these documents are not referenced in the DMI PEFC CoC Manual.

Audit conclusions

The audit found that Daishowa-Marubeni International's chain of custody system:

- Was in full conformance with the requirements of the PEFC 2002-2010 Chain of Custody requirements included within the scope of the audit, except where noted otherwise in this report;
- Is effectively implemented, and;
- Is sufficient to systematically meet the commitments included within the Company's chain of custody policy, 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 Daishowa-Marubeni International Peace River Pulp Division be registered to the PEFC 2002-2010 Chain of Custody standard.

The registration file will be subject to a KPMG Independent Technical Review as required by our accreditation. Provided the Independent Technical Reviewer approves the recommendation, Daishowa-Marubeni International will receive a registration certificate in approximately 4 weeks from the date of corrective action plan approval.

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

As the 2011 audit did not identify any findings of non-conformance corrective action plans are not required. However, should DMI PRPD wish to develop Corrective Actions for the opportunities for improvement a corrective action template 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. Tracking of credits for sales of certified hardwood and softwood pulps.
2. Sourcing of certified hardwood and softwood chips.