

DAISHOWA-MARUBENI INTERNATIONAL LTD.

Forest Resources Business Unit

Compliance Audit 2008



June 2008

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February & June 2008

Prepared for:

DAISHOWA-MARUBENI INTERNATIONAL LTD.

PO Bag 6500 Pulp Mill Site

Peace River, Alberta T8S 1V5

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CONFIDENTIAL REPORT Daishowa Marubeni International Ltd., Peace River Pulp Division, Forest Resources Business Unit – Compliance Audit: February 2008 & June 2008

Audit Scope

Samuel Elkins, EMS Coordinator engaged Robert Volkman CEA (SFM), to conduct a compliance audit of Peace River Pulp Division (PRPD) Forest Resources Business Unit's operations.

Audit Objective

The objective of the audit was to utilize an internal compliance audit program developed by the Forest Resources Business Unit (FRBU) and complete an assessment of their Public Land activities and/or operations against legislative requirements as per *Section 4.4.5 Internal Audit* of the ISO 14001:2004 Standard. This compliance audit program consists of five checklists.

The checklists are:

- CHK-023 Compliance Audit Checklist Temporary Camp Sites REV 0
- CHK-024 Compliance Audit Checklist Operations REV 0
- CHK - 025 Compliance Audit Checklist Roads & Crossings REV 0
- CHK-026 Compliance Audit Checklist Satellite Yards REV 0
- CHK - 027 Compliance Audit Checklist Silviculture REV 0

Each checklist covered a specific operational aspect of FRBU's business activities; and each contained a number of questions relating to legislative or regulatory requirements under Federal, Provincial, or Municipal Acts and Regulations (refer to Appendix B of the Forest Resources EMS Manual Rev 1.2 for a comprehensive listing). The questions also relate to specific dispositions that grant approval, through a Letter of Authority, issued by Alberta Sustainable Resource Development (ASRD) to FRBU to conduct its activities. These dispositions may have specific operating conditions that FRBU must follow or the company would be in non-compliance with these approvals.

Audit Period

The initial audit period covered FRBU activities from October 7th, 2007 to June 19th, 2008. The site visits were conducted in two phases and over two different time periods. During the initial visit (February 9th to 14th, 2008), the sample sites were visited and applicable questions in each checklist were addressed.

Revisiting these sites to gather information on questions requiring snow-free conditions or to assess the completion of a specific activity (i.e. removal of a temporary watercourse crossing) occurred in June 2008 (June 15th to 19th, 2008).

Audit Criteria

The compliance audit checklists and related documentation within the FRBU EMS manual (refer to chapter 13 & 15) was the primary criteria for the audit. For this audit, additional criteria that related to compliance and conformity was followed. The auditors determined whether FRBU activities were compliant with legislated requirements. For those practices considered to not be in compliance, the auditor then evaluated the significance of the non-compliance, based on a number of criteria, including the magnitude of the event, the frequency of its occurrence, and the severity of the consequences.

The auditors would categorize their findings into the following levels of compliance:

Conformity – in compliance, where the auditor finds that practices meets legislative or regulatory requirements.

Opportunity-for-Improvement – where the auditor believes that there is no occurrence of non-compliance but if the practice were to continue, it would potentially lead to a non-compliance resulting in a minor or major non-conformance

Minor non-conformity – where the auditor, upon reaching a non-compliance conclusion, determines that one or more non-compliance event(s) was not

considered significant. An action plan is required to address the minor non-conformity and a revisit was not required.

Major non-conformity – where the auditor determines a non-compliance 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.

As this is a “point in time” assessment, auditors can only determine compliance based on the site visits and the review of the particular practices or activities at each site.

Audit Team

Robert Volkman (Lead Auditor) conducted the compliance audit. Robert is a Certified Environmental Auditor, Certified Environmental Practitioner, and a Registered Forest Technologist in British Columbia and Alberta. Samuel Elkins (auditor) accompanied Robert during field and office assessment work.

Audit Process

The preliminary meeting was held February 11th, 2008. The on-site winter portion of the compliance audit was conducted from February 9th to 14th, 2008 and was done in conjunction with the EMS internal audit. The internal EMS audit was reported out separately in February 2008 (refer to 2008 ISO Internal Audit Report). The compliance audit on-site summer portion occurred from June 15th to 19th, 2008.

Compliance audit protocol had established site visits over two different time-periods, the winter and summer. Most of FRBU’s activities occurred over the winter months so a review during active operations was required. In the summer, a revisit of these operations allowed for a complete review. These activities included an assessment of in-block road construction, installed

watercourse crossing structures, removal and rehabilitation of watercourse crossing structures, and reclamation of in-block roads.

Assessments for each sample were the overall block configuration, retention levels, frozen ground conditions, and debris piles may have occurred in either the winter or summer visit. It was dependent on the status of the cut block (i.e. skid cleared, haul cleared, or final cleared).

The compliance audit utilized the sample developed for the EMS internal audit conducted during the same period (winter season). The summer portion utilized a modified sample but sites were consistent with the winter portion.

The on-site winter audit sample consisted of:

- Harvesting: 30 blocks (5 active, 25 blocks either opened, skid cleared, haul cleared, or completed)
- Road construction: 1 site (active)
- Bridge construction: no activity
- Temporary campsites: 4
- Satellite yards: no activity (Chinchaga yard leased out to TransCanada Pipeline)

Note: No private land sites were included in the audit.

The on-site summer audit sample consisted of:

- Harvesting: 30 blocks
- Road construction: no activity (additional review of watercourse crossing installations – large corrugated metal pipe, 3 sites)
- Bridge construction: no activity
- Temporary campsites: 4 (inactive at time of summer visit)
- Satellite yards: no activity

Audit Observations

A number of good practices as it related to FRBU's operations and activities were observed. The 2007 compliance audit revealed a number of deficiencies in relation to maintaining natural drainage patterns, road and bridge construction, and temporary camps.

FRBU invested considerable effort in developing new programs to address the shortcomings, mentoring to junior staff through job-shadowing, development and implementation of remediation and/or action plans in a timely manner, interaction with government agencies in sharing the non-compliance information, and delivering training to both FRBU staff and its contractors.

As a result of this pro-active approach, FRBU has addressed a non-compliance issue and minimized any potential adverse environmental effects from its activities in 2007. There has been a significant reduction in non-conformities and opportunities-for-improvement from the compliance audit in 2007 (10) to the compliance audit in 2008 (2). In addition, the severity of the findings in 2008 is lower as there were no major non-conformities.

Audit Conclusions

Harvest Blocks

Status of open non-conformities from Compliance Audit 2007

Non-conformity HB-NC-001-CA2007 (natural drainage patterns) was the result of a review of the impacts to the natural drainage patterns within and adjacent to cut blocks.

The assessment of the 2008 samples revealed that this issue had been addressed. The extent of impacts to natural drainage patterns during the 2008 operating season was minimized. Therefore, the non-conformity was closed.

Minor Non-conformance

There was one minor non-conformance (HB-NC-001-CA2008) noted during this audit.

HB-NC-001-CA2008

In one cut block, two designated winter skid crossings that were installed to cross an intermittent watercourse had not been removed prior to the completion of the winter harvest activity (final cleared). The end result was the debris was in the watercourse channel.

This deficiency was in contravention of the Alberta Timber Harvest Planning & Operating Ground Rules (1994), Section 3.4.6 and the DMI Timber Harvest Planning & Operating Ground Rules (1990), Section 4 Road Abandonment, (c) Permanent Abandonment as stated in the General development Plan (section 5).

The impact on the water feature was minimal as water flow, though interrupted, was still within the original bed of the watercourse. Therefore, it was deemed a minor non-conformance.

Opportunities-for-Improvement

There was one opportunity-for-improvement (HB-OFI-001-CA2008) noted during this audit.

HB-OFI-001-CA2008

One detailed cut block plan identified understory protection patches within the harvest boundary. Upon a review of this sample, it was determined that the understory areas designated for protection were harvested. A review of the original layout plan identified the areas as medium understory. The operations supervisor had determined that the areas did not require understory protection as the understory was non-existent. The auditor could not find conclusive

evidence from the field visit, file review, and interview whether the original understory protection was required or existed.

As this relates to a lack of follow-up documentation and no adverse environmental impact had occurred, the auditor deemed the issue an opportunity-for-improvement.

Compliance Audit 2008

During the February and June 2008 site visits, 30 blocks were field reviewed. The review focused on the following as it related to the detailed block plan for each harvest area:

- Block configuration and location;
- In-block roads and skid trails;
- Retention features (in-block & adjacent to boundary);
- Water features (in-block & adjacent to boundary);
- Wildlife features (in-block & adjacent to boundary);
- Water course crossings (in-block & on access roads);
- Utility crossings (in-block & on access roads).

The Compliance Audit Checklist Operations (CHK-24) provided the detailed audit criteria.

In summary, overall block configuration and location, in-block roads and skid trails, retention features, wildlife features, and utility crossings were compliant with the detailed block plans provided.

Retention features were in the form of single trees, clumps, and small patches distributed throughout each block and at varying levels. Retention is not measured (ASRD) on a block-by-block basis and is assessed at a landscape level.

The retention target is to retain an average of 15% of the representative merchantable fibre of the harvested areas. The total retained volume will be the pre-harvest total merchantable volume (live & dead trees) as measured at the Landscape Unit. On an annual timber year, monitoring is done and a five-year summary. By next year, as a specific commitment to ASRD, the five-year summary will be undertaken.

It is difficult to conduct an ocular estimate of the retention on a block-by-block basis (target may range from 0 -30%) during this type of audit and determine whether it meets the landscape level requirements (15% overall). Retention was assessed on the criteria that it existed where it was proposed (for patches) on the detailed block plan and it existed within blocks (for single and group trees) as it was designated in the Annual Operating Plan.

Road Construction & Maintenance

Status of open non-conformities from Compliance Audit 2007

Non-conformity RC-NC-001-CA2007 (surface water management) related to ditch water flows along the new road upgrade section from 128+000 to 146+000 km. A number of initiatives regarding the development of internal road design standards to address this deficiency were underway. Additional training of operations supervisors in programs such as Woodland Water II also showed a proactive approach to address this issue.

The assessment of the 2008 samples revealed that this issue had been addressed. Therefore, the minor non-conformity was closed.

Status of open opportunity-for-improvements from Compliance Audit 2007

Opportunity-for-improvement RC-OFI-001-CA2007 (plan/profile design) related to professional report recommendations being incorporated into designs so the recommendations could be easily identified.

At the time of this audit, a draft document “Watercourse Crossings Field Guide and Strategy” was being prepared with a final document to be completed prior to the upcoming winter season. A review of the context and table of contents provided the auditor assurance that the issue had been addressed. Therefore, the opportunity-for improvement is closed.

Compliance Audit 2008

FRBU has developed a long-term plan over the next five years to upgrade the existing East Haul Road (P5-100 Road) from a winter road with access only during frozen conditions to an all-season road (Class II) and completed approximately 12 to 14 km per year.

In February/March 2008, the East Haul Road was reviewed for new road construction ongoing or completed from approximately section 146+000 km to 166+000 km.

In June 2008, a review of the three large corrugated metal pipe installations (3 separate sites) on the East Haul Road from 160+000 km to approximately 166+000 km was undertaken. This review focused on installation activities related to pipe placement, rip-rap placement, and ditchlines (i.e. drainage flow) as per plan and the aquatic specialist recommendations.

Legislation related to roads is through the Alberta Timber Harvest Planning & Operating Ground Rules (1994), DMI Timber Harvest Planning & Operating Ground Rules (1990), and the Public Lands Act as it is a specific Disposition (LOC – Licence of Occupation), authorized under this Act. The Compliance Audit Checklist Roads & Crossings (CHK-25) provided the detailed audit criteria.

Major Non-Conformance

No major non-conformances were noted.

Minor Non-Conformance

No minor non-conformances were noted.

Opportunity-for-Improvement

No opportunities-for-improvement were noted.

Bridge Construction & Maintenance

Status of open non-conformities from Compliance Audit 2007

Non-conformity BC-NC-001-CA2007 (bank failure Cache Creek) was addressed through a series of actions including a major stabilization project undertaken by FRBU. Professional reports were completed that provided direction to the project and notification to appropriate agencies for approval of the works was an integral part of the action plan. Therefore, this non-conformity is closed.

Non-conformity BC-NC-002-CA2007 (bridge approach erosion control) was addressed through an action plan including work to improve erosion control measures. Professional reports were completed that provided direction to the issues identified in the compliance audit. Recommendations from these reports and guidance manuals were to be implemented into future projects. Therefore, this non-conformity is closed.

Non-conformity BC-NC-003-CA2007 (as-built plans) was addressed through an action plan. Professional reports were completed that provided direction to the issues identified in the compliance audit. Recommendations from these reports and guidance manuals were to be implemented into future projects. Therefore, this non-conformity is closed.

Compliance Audit 2008

No bridge installations occurred during this audit period.

Major Non-Conformance

No major non-conformances were noted.

Minor Non-Conformance

No minor non-conformances were noted.

Opportunity-for-Improvement

No opportunities-for-improvement were noted.

Temporary CampsStatus of open non-conformities from Compliance Audit 2007

Non-conformity TC-NC-001-CA2007 (sumps within 30m of camps) was addressed through an action plan. No issues were noted during the 2008 compliance audit. A procedure was also developed to address these concerns and the requirement incorporated into the contractor training program. Therefore, this non-conformity is closed.

Non-conformity TC-NC-002-CA2007 (adequate wildlife fencing) was addressed through an action plan. The fence was in place during the 2008 compliance audit when camp and sump were active. Therefore, this non-conformity is closed.

Compliance Audit 2008

Four temporary camps were visited in the winter and all four camps were active at that time. Three camps were related to winter harvest operations and one camp was related to winter road construction activities. The same four camps were revisited in the summer and at that time, three camps were inactive and

one camp (winter harvest operations) had been decommissioned and site had undergone full reclamation.

Alberta Timber Harvest Planning & Operating Ground Rules (1994), Temporary Field Authorizations, and the Alberta Private Sewage Standard of Practice provided the legislative/regulatory guidance. The Compliance Audit Checklist Temporary Camp Sites (CHK-23) provided the detailed audit criteria.

Major Non-Conformance

No major non-conformances were noted.

Minor Non-Conformance

No minor non-conformances were noted.

Opportunity-for-Improvement

No opportunities-for-improvement were noted.

Satellite Yards

Status of open non-conformities from Compliance Audit 2007

Non-conformity SY-NC-001-CA2007 (undisturbed treed buffer on intermittent stream) was addressed through an action plan. No issues were noted during the 2008 compliance audit. Professional assessment reports were conducted to determine any environmental impacts from the activity and a remediation plan was implemented to address the deficiency. Therefore, this non-conformity is closed.

Non-conformity SY-NC-002-CA2007 (fuel trucks within 100m of intermittent watercourse) was addressed through an action plan. The satellite yard was not active during audit period and no fuel trucks in yard. Therefore, this non-conformity is closed.

Compliance Audit 2008

No activity in the satellite yard during the audit period.

Major Non-Conformance

No major non-conformances were noted.

Minor Non-Conformance

No minor non-conformances were noted.

Opportunity-for-Improvement

No opportunities-for-improvement were noted.

Silviculture

As part of this compliance audit, review of silviculture activities did not occur, although it was in the initial plan and a sample chosen. Due to adverse weather that had an impact on timing, the silviculture sample was not included in the audit. FRBU will determine a schedule to complete a silviculture compliance audit in the future.

Major Non-Conformance

No assessment work undertaken in the compliance audit period.

Minor Non-Conformance

No assessment work undertaken in the compliance audit period.

Opportunity-for Improvement

No assessment work undertaken in the compliance audit period.

Audit Summary

FRBU did make a concerted effort in several areas of their operation to ensure that the company is meeting or exceeding the legislative requirements that governs forest operations in the province of Alberta. FRBU needs to be commended for their proactive role when it comes to identifying an issue where the company may not be in compliance and the efforts made are not only to notify the appropriate agency but implement a remediation plan. This proactive approach reduces the potential for any adverse environmental impact and provides a cost-effective solution to the issue that has arisen. This approach also ensures that FRBU is not in a situation where non-compliance may lead to enforcement action taken by the Province (i.e. fines).

This compliance audit also has allowed FRBU to see where the operation may need to focus its attention when it comes to areas not previously identified as an issue.

FRBU needs to address the major non-conformities identified in this audit with an appropriate action plan immediately and may also need to implement the plan to reduce any potential adverse impacts or enforcement actions. Minor non-conformities require an 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 compliance audits.

There were no major non-conformances, one minor non-conformance, and one opportunity for improvement identified in this compliance audit.

Disclaimer / Statement of Limitations

This audit report was prepared exclusively for Daishowa-Marubeni International Ltd. (DMI) Peace River Pulp Division, 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 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 compliance audit. Please contact me if you have any questions or concerns.

Sincerely,



Robert Volkman, PMP RFT (BC & AB) CEA(SFM) CCEP