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Daishowa-Marubeni International Ltd.
Peace River Pulp Division
Forest Resources Business Unit
Postal Bag 6500, Pulp Mill Site
Peace River, Alberta
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August 31, 2007

Dear Al:

Re: 2007 PEFC Chain of Custody Surveillance Audit Report for Daishowa-Marubeni International

Our PEFC Chain of Custody Surveillance Audit Report for Daishowa-Marubeni International is attached. The report documents the results of the audit that took place during the period August 28 – 31, 2007.

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, 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 very truly,

Sylvi D. Homsen, RPF, CA, CEA(SFM)
Senior Systems Assessor
KPMG Performance Registrar Inc.
604-691-3431

Enc: PEFC Chain of Custody Surveillance Audit Report for Daishowa-Marubeni International



PEFC Chain of Custody Surveillance Audit Report for Daishowa-Marubeni International

August 31, 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. 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 Annex 4 – Chain of Custody of Forest Based Products - Requirements
Scope of Registration:	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.
Client Representative:	Al Schneider, Advisor, Continuous Improvement
Assessment Number:	PEFC COC: #2438.01

B. Document Review Findings

This was a limited scope surveillance audit against selected elements of the PEFC Chain of Custody standards. As such, no formal document review was required in advance of the audit.

C. Audit Details

Type of Audit:	Surveillance audit
Date(s) of Surveillance Audit:	August 28 – 31, 2007
Date of Next Assessment:	July 2008
Audit team:	Lead auditor: Sylvi Holmsen
Audit Report Distribution:	Daishowa-Marubeni International KPMG PRI audit files
Audit objective(s):	The objective(s) of the audit was to evaluate the environmental and chain of custody management system at Daishowa-Marubeni International, its implementation, effectiveness and conformance with the requirements of PEFC Annex 4. These objective(s) were met.
Audit scope:	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 management system during the period March 1, 2007 – August 31, 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 PEFC SW Certified Pulp Summary spreadsheet provides a good means of tracking the information.

Follow-up on open non-conformities from previous audits

At the time of this assessment there were a total of 3 open non-conformities from previous audits. The audit team reviewed the implementation of the action plans developed by Daishowa-Marubeni International to address these issues, and found that they had been effectively implemented. As a result, all of the non-conformities identified during previous audits have now been closed.

Major non-conformities

No major non-conformities were identified during the audit.

Minor non-conformities

The following minor non-conformity was identified during the audit:

1. Minor non-conformity: 2438.01-NC-A2-01
Standard/Element(s): 3.2.2 and 14.1
Client Procedure: **DMI Chain of Custody manual, sec. 5.4**

PEFC Annex 4 elements 3.2.2 and 14.1 requires the organization to obtain documentation from all suppliers of the certified raw material to demonstrate that the criteria set for the supplier of the certified raw material have been met.

While the organization has obtained representation letters from its chip suppliers indicating a) the certification percentage, and b) that the wood is not obtained from controversial sources, there is no process in place to assess the accuracy of the information provided, including:

- Verifying the accuracy of the percentage calculations, for example, a review of the letter from Buchanan indicated that there was an error in the volume information presented. Note that a review of the source data indicated that the percent certified content had been correctly calculated.
- Verifying the source information, i.e. certification status such as confirming that wood from SFI certified companies does not include SFI procurement wood.
- Confirming that chip suppliers have received certification credits (e.g. Buchanan's purchases from West Fraser and Tolko).

Opportunities for improvement

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement:** 2438.01-OFI-A2-01

Standard/Element(s): 14.2

Client Procedure: Representation Letters

The audit identified an opportunity to improve Daishowa-Marubeni International's procedures for obtaining representation letters from suppliers. A review of the representation letters indicated that, to date, there has not been a consistent timeframe for reporting supplier information related to certified content of the chips. For example, Buchanan Lumber is currently reporting an annual timeframe of May 1, 2006 to April 30, 2007, while Tolko has reported for a 6 month period from November 11, 2006 to June 20, 2007. While it is not necessary to pick a specific timeframe for suppliers' reporting, the company would benefit from having a clear reporting requirement to ensure that all of its chip supply is covered.

2. **Opportunity for improvement:** 2438.01-OFI-A2-02

Standard/Element(s): 17.1

Client Procedure: PEFC SW Certified Pulp Summary spreadsheet

The audit identified an opportunity to improve Daishowa-Marubeni International's procedures for calculating certified volumes for the volume credit account. The company uses the prior year's year-end conversion factor to convert the chip input volume to pulp (e.g. BDts to ADts) for the purpose of calculating and tracking the certified chip inputs and the pulp volume in the volume credit account. However, there is no process for reviewing and adjusting the credit account at year end if there is a significant change in conversion rates from the prior year. While it is not likely to be a material change, there is a risk in the future that poor conversion rates could lead to an overstatement of the credit account.

3. **Opportunity for improvement:** 2438.01-OFI-A2-03

Standard/Element(s): 17.1

Client Procedure: PEFC SW Certified Pulp Summary spreadsheet

The operation has a chip trade agreement with Weyerhaeuser whereby chips from one of Weyerhaeuser's suppliers is directed to DMI's pulpmill in exchange for chips from one of DMI's suppliers (Buchanan) directing chips to Weyerhaeuser's mill, that permits DMI to retain the certification credits from its supplier. While DMI has not yet included these credits in its calculation of the volume credit account, the audit identified a weakness in Daishowa-Marubeni International's procedures for calculating certified volumes for the volume credit account.

To be able to utilize these credits, DMI will need to:

1. Ensure that the credits have been transferred to Buchanan in the first place, and
2. Establish an agreement with Buchanan that transfers these rights to DMI directly.

Audit conclusions

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

- Was in full conformance with the requirements of PEFC Annex 4 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 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 continue to be registered to the PEFC Annex 4 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

Written corrective action plans that are designed to address the root causes of all identified 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 Daishowa-Marubeni International 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. Implementation of action plans to address the issues identified in this assessment.
2. 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).