

REPORT TO THE FORT ST. JOHN PILOT PROJECT PARTICIPANTS

Introduction

As required under s.50 of the *Fort St. John Pilot Project Regulation* (“the Regulation”), we have been engaged by the “Fort St. John Pilot Project Participants”(Canadian Forest Products Ltd., Cameron River Logging Ltd., Tembec Inc., Louisiana-Pacific Canada Ltd., Dunne-za Ventures LP, Canfor-LP OSB Limited Partnership and BC Timber Sales-Peace-Liard Business Area Fort St. John TSA operations) to examine compliance with the requirements of the Regulation for the period from April 1, 2009 to March 31, 2011 (the most recent year-end for Pilot Project reporting purposes under s.51 of the Regulation).

Compliance with the Regulation is the responsibility of the Fort St. John Pilot Project Participants’ management. Our responsibility is to express an opinion as to whether the Participants have complied with the *Fort St. John Pilot Project Regulation* in all material respects.

Our duties in relation to this report are owed solely to the Participants, and accordingly we do not accept any responsibility for loss occasioned to any third party acting or refraining from action as a result of this report.

Conduct of the Engagement

We have conducted our examination having regard to the *Fort St. John Pilot Project Regulation* and “audit principles that are generally accepted for use in the forest industry”.

An examination includes assessing, on a test basis, evidence relevant to the information presented in the Participants’ annual reports and the Participants’ compliance with the requirements of the *Fort St. John Pilot Project Regulation*. The scope of our work and the criteria were agreed with the Participants. The main elements of our examination were:

- Identification of activities and obligations subject to assessment, including planning, harvesting, road construction, maintenance and deactivation, silviculture and public consultation.
- Review of Sustainable Forest Management plans, Forest Operations Schedules and related amendments developed under the Regulation for consistency with the Regulation.
- Field examination and review of site level plans for a sample of planning, harvesting, road construction, maintenance and deactivation and silviculture activities.
- Examination of Annual Reports prepared by the participants and examining back-up data supporting performance against a sample of SFM indicators.
- Assessment of records related to public consultation and interviews with a sample of members from the public advisory group.

The Participants reported the following activities carried out during the period and subject to assessment

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	1	
New Forest Operations Schedule	1	
Harvesting (blocks)	122	24
Road construction (road sections) ³	337	87
Road deactivation	344	73
Planting (blocks)	175	68
Establishment and MSQ Surveys	198	146

The activities examined during the assessment included:

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	1	
New Forest Operations Schedule	1	
Harvesting (blocks)	15	8
Road construction (road sections)	17	7
Road deactivation	8	4
Planting (blocks)	2	5
Site preparation (blocks)	0	2
Establishment and MSQ Surveys	4	6
Herbicide (blocks)	4	1

Notes:

- 1 The Cameron River Logging, Tembec, Dunne-za Ventures LP, Louisiana-Pacific and Canfor-LP OSB Limited Partnership allocations are managed by Canfor and are therefore combined for reporting purposes.
- 2 Harvesting, site preparation, bridge installation, planting and survey field samples all included consideration of road maintenance activities on the access roads to the sites.
- 3 Road construction includes installation of bridges.

We planned and performed our examinations so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to support our opinion on the Participants' compliance with the *Fort St. John Pilot Project Regulation*.

Findings

Overall level of compliance

Overall, activities carried out by the pilot project participants exhibited a high level of compliance. One minor non-compliance was identified during the assessment.

SFM Planning, CSA and ISO 14001 Registration

The Regulation provides for the development of a Sustainable Forest Management (SFM) Plan through a public advisory group to guide operational planning activities within the Pilot Project

Area. The latest version of the SFM plan (SFM plan #2) was submitted and approved during the period. The Participants first achieved Canadian Standards Association SFM registration for the pilot project area against the 2002 version of the CSA Z809 standard in the fall of 2003 and were successfully re-registered under that standard in 2006 and 2009 and were recently registered under the 2008 version of the CSA Z809 standard. BC Timber Sales and Canfor managed operations also successfully maintained separate ISO 14001 registrations throughout the current audit period.

Performance against the SFM plan

The annual reports for the year ended March 31, 2010 and the year ended March 31, 2011 outline performance against the SFM plan. Section 42 of the Regulation requires the participants to conduct operations consistent with the specified targets and landscape level strategies.

The Participants' annual reports did not identify any targets related to the landscape level strategies that were not met during the two reporting periods.

The annual reports noted the following targets (not explicitly linked to the landscape level strategies) that were not met:

Year ending March 31	Target	Reported findings
2010	54 – Dollars Spent Locally	The percentage of dollars spent locally met 3 of 4 targets – one target (respecting reforestation expenditures) was not met (6.5% of reforestation expenditures was spent locally as opposed to the target minimum of 8%).
2010	55 – Value and Total Number of Tendered Contracts	36.08% of the total value of contracts was tendered in comparison to the target of 50%.
2011	54 – Dollars Spent Locally	The percentage of dollars spent locally met 3 of 4 targets – one target (respecting reforestation expenditures) was not met (6.5% of reforestation expenditures was spent locally as opposed to the target minimum of 8%).

In addition, our 2011 assessment noted that the existing suite of SFM plan indicators do not fully address two core indicators required by CSA Z809-08 (2.2.1 – Additions and deletions to the forest area and 5.2.3 – Level of direct and indirect employment). Subsequent to our assessment the Participants submitted an action plan to revise an existing indicator or develop a new indicator to address these identified gaps.

Regulatory Non-compliances Identified by Participants

The Participants reported no compliance and enforcement measures that were imposed by the government in relation to activities carried out by the Participants during April 1, 2010 – March 31, 2011 reporting period.

- Non-compliances were identified by the Participants during the period and reported to the District Manager, Resource Operations and the Director, Resource Management of the Ministry of Forests, Lands and Natural Resource Operations. The non-compliances were reported in the Participants' annual reports for the year ended March 31, 2010 and the year ended March 31, 2011.

- Confirmation was sought from the District Manager, Resource Operations and the Director, Resource Management of the Ministry of Forests, Lands and Natural Resource Operations with respect to compliance and enforcement measures imposed by government and the number and nature of non-compliances reported by the Participants. Both agencies confirmed that there were no compliance and enforcement measures imposed by government during the period.

Minor Non-compliances identified by our assessment

Our assessment identified the following minor non-compliance:

- 1 On one block field reviewed (BCTS TSL A80055, Block 01072), logging debris was left in one stream and was partially occluding another (both at pulled crossings). In addition, the inclined roads approaching both of these streams were heavily rutted (likely by the Donaren mounder used for mechanical site preparation) and were insufficiently cross-ditched to effectively manage/divert the water and sediment flowing down the inclined portions of the roads from entering the streams (both streams were non-fish bearing S6 streams). Consequently, this issue represents a minor non-compliance against the FSJPPR, Clause 28 (1)(g) which requires water quality be protected by (v) protecting stream bank and channel stability and (vi) minimizing sediment entry into streams as well as against Clause 28(1)(e) which requires soils be conserved by (i) maintaining slope stability, (ii) maintaining surface drainage patterns and (iii) minimizing surface soil erosion.

Opportunities for Improvement identified by our assessment

In addition our assessment identified the following opportunities for improvement:

- 1 Forest practices were found overall to be consistent with the prescriptions specified in site level plans as required under FSJPPR S.28. However, during the field inspection it was noted that some summer harvesting occurred despite the site level plans prescribing winter harvesting to minimize surficial disturbance as a measure to maintain lichen for caribou (Canfor harvest block 09007) and to protect an archaeological site by harvesting under frozen ground conditions (Canfor harvest block 09035).
- 2 Copies of past FSJPPR independent compliance audit reports are available for public review at BCTS and Canfor offices during regular business hours as required by FSJPPR S.57(3)(d), however they are not made more widely and readily available to the public via postings on the FSJPP website (as the Participants have done for the annual reports).

Opinion

We have conducted an independent audit of the “Fort St. John Pilot Project Participants” (Canadian Forest Products Ltd., Cameron River Logging Ltd., Tembec Inc., Louisiana-Pacific Canada Ltd., Dunne-za Economic Development Corporation and BC Timber Sales-Peace-Liard Business Area Fort St. John TSA operations) compliance with the *Fort St. John Pilot Project Regulation* as required under Section 50 of the Regulation.

The *Conduct of the Engagement* section of this report describes the basis of the audit work performed in reaching our opinion. The audit was conducted in accordance with audit principles that are generally accepted for use in the forest industry.

In our opinion, except for the one minor non-compliance disclosed in the *Findings* section of this report the forest management planning and operations carried out by the Fort St. John Pilot

Project Participants complied in all material respects with the requirements of the *Fort St. John Pilot Project Regulation* for the period April 1, 2009 to March 31, 2011.

In reference to compliance, the term "in all material respects" recognizes that there may be minor instances of non-compliance that are not detected by the audit, or that are detected and not considered worthy for inclusion in the report

A handwritten signature in black ink, appearing to read "C. Roessler".

Craig Roessler, CEA (SFM)

Lead Auditor

KPMG Performance Registrar Inc.

January 4, 2012

Vancouver BC, Canada