

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., BC Timber Sales, Cameron River Logging Ltd., Chetwynd Mechanical Pulp Ltd., Dunne-Za Ventures LP, Louisiana-Pacific Canada Ltd.) to examine compliance with the requirements of the Regulation for the period from April 1, 2013 to March 31, 2015 (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 Sustainable Forest Management (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	Amendments only	
New Forest Operations Schedule	Amendments only	
Harvesting (blocks)	138	37
Road construction (road sections) ³	368	119
Road deactivation	279	118
Planting (blocks)	127	68
Establishment and MSQ Surveys	293	119

The activities examined during the assessment included:

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	Amendments only	
New Forest Operations Schedule	Amendments only	
Harvesting (blocks)	24	5
Road construction (road sections)	21	5
Road deactivation	7	2
Planting (blocks)	9	7
Site preparation (blocks)	5	0
Establishment and MSQ Surveys	5	2
Herbicide (blocks)	4	6

Notes:

- 1 The Canadian Forest Products Ltd., Cameron River Logging Ltd., Chetwynd Mechanical Pulp Ltd., Dunne-Za Ventures LP, and Louisiana-Pacific Canada Ltd. 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

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 a previous (April 1, 2009 – March 31, 2011) audit 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. The Participants achieved registration under the 2008 version of the CSA Z809 standard in December 2011 and were successfully re-registered under that standard in 2014. 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, 2014 and the year ended March 31, 2015 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 identified the following targets related to the landscape level strategies that were not met during the two reporting periods:

Year ending March 31	Target	Reported findings
2014	30 – Establishment Delay	The area weighted average establishment delay for Canfor managed mixedwood stands was 5.7 years, which exceeds the target plus variance of 3.5 years.
2015	30 – Establishment Delay	The area weighted average establishment delay for Canfor managed mixedwood stands was 4.54 years, which exceeds the target plus variance of 3.5 years.
2015	36 - Protection of Streambanks and Riparian Values on Small Streams	There were two incidents of non-conformance to SLP measures during the reporting period, which exceeds the target plus variance of one non-conformance.

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
2014	63 – Worker Training	The target requires 100% (less 10% acceptable variance per employee) of the participants' employees to receive training consistent with training plans. Canfor employee training records indicated non conformance with the target as 1 of 38 Canfor employees did not complete a mandatory training course identified in training plans.
2015	N/A	N/A

Regulatory Non-compliances Identified by Participants

The Participants reported no compliance and enforcement measures that were imposed by government in relation to activities carried out by the Participants during April 1, 2013 – March 31, 2015 reporting period.

- Non-compliances were identified by the Participants during the period and reported to the District Manager, Resource Operations and the Director of 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, 2014 and the year ended March 31, 2015.
- Confirmation was sought from the District Manager, Resource Operations and the Director of 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 the non-compliances in the annual reports were accurate, and that no compliance and enforcement measures were imposed during the period.

Non-compliances identified by our assessment

No non-compliance findings were identified by our assessment.

Opportunities for Improvement identified by our assessment

In addition our assessment identified the following opportunities for improvement (OFIs):

1. The FSJPP regulation at 19 (1) requires that participants must ensure that a site level plan be consistent with the sustainable forest management plan in effect at the time the site level plan is prepared.

The FSJPP SFM Plan indicator #5 - 'Snags/cavity sites' has an underlying target to "Retain annually an average of at least 6 snags and/or live trees (>23cm dbh) per hectare on prescribed areas".

It is noted that BCTS commonly prescribes stubs in cutblocks, but the typical Timber Sale License contract document requires "3 metre knockdown across the cutting authority". This knockdown requirement does not recognize the biodiversity benefits of retaining some level of overstory (or understory) within the cutting authority, as the target in the SFM Plan does.

(This OFI is an excerpt of an OFI from the 2015 CSA Z809 report, FSJPP-OFI-2015-02.)

2. The FSJPP Regulation at 32(8) speaks to having a silviculture regime designed to achieve target stocking. The audit included an assessment of silviculture blocks, some of which had been prepared for planting by excavator mounding. On two of these blocks (01158 and 01159, managed by Canfor) the mounds were commonly placed on top of or amongst slash and debris, resulting in air pockets and a poor quality planting medium.

Using correct mounding techniques will increase the likelihood of compliance with this element of the regulation.

(This OFI is an excerpt of an OFI from the 2015 CSA Z809 report, FSJPP-OFI-2015-04.)

Opinion

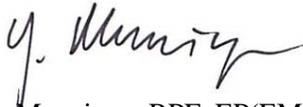
We have conducted an independent audit of the “Fort St. John Pilot Project Participants’ (Canadian Forest Products Ltd., Cameron River Logging Ltd., Tembec Inc., Louisiana-Pacific Canada Ltd., Dunne-za Economic Development Corporation and BC Timber Sales-Peace-Liard Business Area Fort St. John TSA operations) 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. We believe our work provides a reasonable basis for our opinion.

In our opinion 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, 2013 to March 31, 2015.

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

Yours truly,



Yurgen Menninga, RPF, EP(EMSLA), QMS(LA)
Lead Auditor

KPMG Performance Registrar Inc.

June 27, 2016

Vancouver BC, Canada