

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 Economic Development Corporation 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, 2005 to March 31, 2007 (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.
- Review of the *Forestry Audit: British Columbia Timber Sales Fort St. John Pilot Project Area* released by the Forest Practices Board in March 2007 covering the period April 1, 2005 to September 8, 2006.

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

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	Amendments only	
New Forest Operations Schedule	Amendments only	
Harvesting (blocks)	97	43
Road construction (road sections) ³	461	149
Road deactivation	582	69
Planting (blocks)	311	36
Establishment and MSQ Surveys	367	58

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)	29	12
Road construction (road sections)	18	11
Road deactivation	22	4
Planting (blocks)	13	3
Site preparation (blocks)	9	5
Establishment and MSQ Surveys	8	0 ⁴

Notes:

- 1 The Cameron River Logging, Tembec, Dunne-za Economic Development Corporation and Louisiana-Pacific 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
- 4 Field samples for BCTS activities took into account the sample coverage of the recent Forest Practices Board audit e.g., as the Forest Practices Board field sampled 20 survey blocks and reviewed documentation for 32 blocks it was not considered necessary to sample additional sites.

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 the opinion provided 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. No significant non-compliances were 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 SFM plan was submitted and approved during the previous audit period. Minor amendments have since been made to the plan and are summarized in the Participants' Annual Reports. The Participants first achieved Canadian Standards Association SFM registration for the pilot project area in the fall of 2003 and were successfully re-registered under that standard in 2006. 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, 2006 and the year ended March 31, 2007 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 annual reports identify the following targets related to the landscape level strategies as not having been met:

Year ending March 31	Target	Reported findings
2006	29 - Reforestation Assessment	One cutblock had a mean MSQ below 2.0 for the 1990/1991 harvest year.
2006	34 - Peak Flow Index	A watershed assessment was not completed until after the sale of a cutblock in one watershed.

The Participants' reports also note that the following targets, not explicitly linked to the landscape level strategies were also not met:

Year ending March 31	Target	Reported findings
2007	49 – Harvest systems	100% of the area in blocks completed during the year was harvested using ground based equipment. The target was 95% (variance 85%-99%) of the area to be harvested using ground based equipment.
2007	35 – Water Quality Concern Rating (WCQR)	The number of stream crossings on active roads with a “high” water quality concern rating was 68% compared to a target of 25% with a maximum variance to 30%.
2007	55 – Value and total number of tendered contracts versus total contracts	30% of the total value of contracts was tendered compared to a target of 50% with a maximum variance to 40%.
2006 and 2007	56 – Elements pertinent to treaty rights	The non-conformity identified under Indicator #34 (2006) and Indicator #35 (2007) are relevant to indicator #56 also.

Minor Non-compliances Identified by Participants

The Participants reported that there were no compliance and enforcement measures imposed by government in relation to activities carried out by the Participants during the period.

- Non-compliances were identified by the Participants during the period and reported to the Ministry of Forests and Range and the Ministry of Environment. The non-compliances were

reported in the Participants' annual reports for the year ended March 31, 2006 and the year ended March 31, 2007.

- Confirmation was sought from the Ministry of Forests and Range and the Ministry of Environment 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.

Opportunities for Improvement identified by our assessment

In addition our assessment identified the following opportunities for improvement:

1. Our assessment indicated that overall the Public Advisory Group (PAG) process was consistent with the PAG terms of reference as required under FSJPPR S.48 (3). However, we did note that while the PAG terms of reference were required to be reviewed and re-endorsed annually, they were not reviewed and re-endorsed between October, 2004 and March, 2006. Additionally, the PAG did not formally review the 2005 compliance audit report as required by FSJPPR S.47 (2) (b).
2. FSJPPR S.51 (3) (e.1) (ii) requires the Annual Report to contain a summary of any amendments to the Forest Operations Schedule for which a notice of the amendment was not required to be published. Our assessment determined that 20 such amendments were made but only 19 were listed in the Annual Report. Amendment 22, an expedited major amendment for Mountain Pine Beetle salvage was not disclosed in the Annual Report as required.
3. Our assessment indicated that while deactivation guidelines are in place and used for low and medium risk road deactivation on Canfor managed allocations they are not signed by the participants as required under FSJPPR S.19 (2) (e).
4. Our assessment identified one BCTS cutblock where the regeneration strategy under FSJPPR S.32 (3) was changed from natural deciduous regeneration to artificial coniferous reforestation without first seeking a request and receiving approval of the District Manager for a stocking standard amendment.
5. Our assessment of site level plans indicated that overall, they accurately describe site conditions as required under FSJPPR S.19. However, in 3 instances minor discrepancies were noted between BCTS site level plans and actual site conditions, specific to the location of riparian features. None of the discrepancies affected the outcome of practices undertaken on the sites.
6. Our assessment of contraventions reported to regulatory agencies in the Annual Reports indicated that there were a small number of contraventions reported to agencies that were not reflected in the Annual Reports. These related to snowplowing a short section of seismic line, planting seedlings outside the approved seed transfer limits on two cutblocks (Canfor managed allocations), a fire initiated on a Timber Sale licence and self reporting of failure to establish a well growing stand of crop trees during the reforestation period on one cutblock (BCTS). It appears that current reporting processes lead to situations where items discovered and reported during the year may not be reported in the Annual Report if it is limited to items that "occurred" during the year as some of the discoveries relate to actions that occurred in prior years.

These opportunities for improvement do not have a material impact on the Participants' performance under the Regulation.

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 minor non-compliances 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, 2005 to March 31, 2007.

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 of inclusion in the report



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Vancouver BC, Canada