

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., Lousiana Pacific Canada Ltd., Dunne-Za Economic Development Corporation and BC Timber Sales-Peace-Liard Business Area Fort St. John TSA only) to examine compliance with the requirements of the Regulation for the period from April 1, 2003 to March 31, 2005 (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 Forest Development Plan 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.
- 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 were:

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	1	
New Forest Operations Schedule	1	
Harvesting (blocks)	136	31
Road construction (road sections) ³	312	62
Road deactivation ³	575	69
Bridge installation	11	0
Planting (blocks)	380	66
Establishment and MSQ Surveys	429	48

The activities examined during the assessment included:

Activity	Canfor managed allocations ¹	BCTS
New SFM Plan	1	
New Forest Operations Schedule	1	
Harvesting (blocks)	23	16
Road construction (road sections)	12	4
Road deactivation	17	10
Bridge installation	7	1
Planting (blocks)	9	7
Site preparation (blocks)	13	6
Establishment and MSQ Surveys	11	5

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 Some inconsistency was noted in the reporting of road construction and road deactivation information between the two reporting years. However, the inconsistencies related primarily to disclosure on minor items such as the number of sections of road where water bars were installed rather than more significant items such as the number of sections of road that were permanently deactivated. Similarly, for road construction the inconsistencies related to disclosure of on-block road construction and use of roads managed by other parties rather than main haul road construction.

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 period. It should also be noted that the Pilot Project Participants achieved Canadian Standards Association SFM registration for the pilot project area in the fall of 2003 and BC Timber Sales achieved ISO 14001 Registration in the spring of 2005. Canfor managed operations have held ISO 14001 Registration since 1999.

Performance against the SFM plan

The annual reports for the year ended March 31, 2004 and the year ended March 31, 2005 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
2004	36. Protection of streambanks	3 incidents of sediment transport into non-fishbearing streams, 3 incidents of machine free zone infringements
2005	4. Shape Index	1 of 31 Shape index targets were not met (in the Halfway LU cutblocks within the 100-1000 ha range had a shape index of 2.67 vs. a minimum target of 2.7)
2005	7. Riparian Reserves	One instance of minor cutting within a riparian reserve zone of an S2 stream based on consultation with MWLAP but in the absence of a formal variance. One minor (7 trees) incursion into the riparian reserve zone of an S3 stream.

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
2004	13. Coniferous seeds	2 instances of seedlings planted in contravention of the regulations (37,000 trees)
2004	56. Elements pertinent to treaty rights	The isolated findings under Target #36 affect performance under this target also.
2004	57. Values and uses addressed	1 incident where an agreed cultural buffer was harvested, 1 incident where a culturally modified tree was harvested
2005	13. Coniferous seeds	2 instances of seedlings planted in contravention of the regulations (11,000 trees)

Year ending March 31	Target	Reported findings
2005	29. Reforestation assessment	Predicted merchantable volumes for the 1989/90 harvest year were 94.8% for BCTS (12 cutblocks) compared to a maximum tolerance of 95%. However, after accounting for recent brushing the figure will rise to 102%
2005	61. Elements pertinent to treaty rights	The isolated findings under Target #4 and #7 affect performance under this target also.

In addition, our 2005 assessment noted that target #41 and #46 required revision as they were not effective measures of the participants' intent with respect to interactions with range tenure holders, trappers, guides and other known non-commercial interests through the development of mutually agreed action plans. Subsequent to our assessment the Participants submitted an action plan to amend these targets to better measure ongoing communications with the affected parties.

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 the Ministry of Environment. The non-compliances were reported in the Participants' annual reports for the year ended March 31, 2004 and the year ended March 31, 2005.
- Confirmation was sought from the Ministry of Forests 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 the non-compliances disclosed by the Participants in their annual reports were accurate and 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 one minor inconsistency between the PAG terms of reference and current practice in relation to notification of alternate members of the dates of upcoming meetings. Additionally, while meetings are open to the public consistent with FSJPPR S.48 (4) we noted that there was no effective process for the public to become aware of when the meetings were occurring as there was no advertising of meetings.
2. Our assessment was unable to determine the linkage between the Forest Operations Schedule (FOS) and long term actions necessary to achieve target #1 (as required under FSJPPR 80 (2)(b)) which addresses percent distribution of forest type (deciduous, deciduous mixedwood, conifer mixedwood, conifer) > 20 years old by landscape unit. The FOS does not explicitly address this target and has queued stands as conifer, deciduous or mixedwood only.

3. Road deactivation site level plans in the Apsassin Creek area had not been signed by the Participant or signed by a qualified registered professional for areas with more than a low likelihood of landslides FSJPPR S.19 (2). An action plan was subsequently developed by the Participants to address this requirement.
4. In 2004 our field assessment of deactivated on-block roads identified weaknesses in drainage identification and water management that were leading to alteration of natural drainage patterns, scouring of the road way and some instances of minor sediment deposition into streams on 3 cutblocks. Additionally, Participant internal audits identified weaknesses in practices around stream crossings on small (S4) fish streams. Actions plan were subsequently developed and implemented to address this requirement. Repeat findings were not identified in the 2005 field assessment.
5. The Participants' annual reports are required to include a statement of the degree to which the landscape level strategies contained in the sustainable forest management plan were followed by the participant FSJPPR S.51 (3). Our assessment indicated that both the 2004 and 2005 reports included the relevant data with respect to landscape level strategies. However, the 2004 annual report only provided the data by indicator and did not summarize performance specifically in relation to the approved landscape level strategies.
6. Two instances were identified on one site of harvest within an identified archaeological site without a site alteration permit. The instances were identified on a Participant internal audit.

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

Opinion

Based on our examination, in our opinion, nothing has come to our attention that would cause us to believe that the Participants have not:

- prepared annual reports in respect of the period from April 1, 2003 to March 31, 2005 that accord in all material respects with the requirements of the *Fort St. John Pilot Project Regulation*;
- disclosed in their annual reports, as required, instances of non-compliance and any failure to achieve SFM targets and,
- complied in all other material respects with the requirements of the *Fort St. John Pilot Project Regulation*.



Chris Ridley-Thomas CEA (SFM)

Lead Auditor

KPMG Performance Registrar Inc.

December 5, 2005

Vancouver BC, Canada