



KPMG Performance Registrar Inc.

Box 10426, 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
(604) 691-3401
Telefax (604) 691-3031
www.kpmg.ca

Corey Kuromi
Woodlands Manager
ArdeW Wood Products Ltd.
1195 Houston Street
Merritt, BC V1K 1B8

November 3, 2011

Dear Corey:

Re: 2011 ISO 14001 Re-Registration and CSA Z809 Surveillance Audit Report for ArdeW Wood Products Ltd.

Our 2011 ISO 14001 Re-Registration and CSA Surveillance audit Report for ArdeW Wood Products is attached. The report documents the results of the audit that took place during the period of October 24th – 27th, 2011.

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 ArdeW Wood Products, 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 truly,

Craig Roessler, RPF, EP(EMSLA)
Manager
(604) 691-3115

Enc: 2011 ISO 14001 Re-Registration and CSA Surveillance Audit Report for ArdeW Wood Products



**2011 ISO 14001 Re-Registration and
CSA Z809 Surveillance Audit Report for
Ardeu Wood Products Ltd.**

November 3, 2011

The information in this audit report is confidential and may be legally privileged. It is intended solely for the use of the intended recipient, Ardeu Wood Products. 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.



Table of Contents

A. Client Information	1
B. Document Review Findings	1
C. Audit Details	1
D. Audit Findings.....	2
E. Corrective Action Plans	7
F. Focus Areas for Next Audit Visit.....	8

A. Client Information

Client Name:	ArdeW Wood Products
Assessment Number and Audit Criteria:	#2407: ISO 14001-2004 (Re-registration Audit) #2407.01: CSA Z809-02 (Surveillance Audit)
Scope of Certification:	ISO 14001: ArdeW woodlands operations on Forest Licenses A18039, A55524 and A65442, excluding Innovative Forest Practices Agreement activities. CSA Z809: ArdeW woodlands sustainable forest management planning and operations on Forest Licenses A18039, A55524 and A65442 within the Merritt Timber Supply Area and responsibilities under the Nicola Thompson Fraser Sustainable Forest Management Plan (excluding Innovative Forest Practices Agreement activities).
Client Representative:	Corey Kuromi, Woodlands Manager

B. Document Review Findings

This was a limited scope surveillance audit against selected elements of CSA Z809 standard. As such, no formal document review was required in advance of the audit.

Due to the maturity of ArdeW's Environmental Management System and the fact the system has not materially changed over the last few years (including since last reviewed in 2010), the ISO 14001:2004 document review was conducted concurrently with the on-site re-registration assessment. Any findings in relation to ISO 14001 that were identified during the on-site document review are reflected in this audit report.

C. Audit Details

Type of Audit:	ISO 14001-2004 (Re-registration Audit) CSA Z809-02 (Surveillance Audit)
Dates of Document Review:	October 24 – 27, 2011 (concurrently with on-site audit)
Dates of Re-registration / Surveillance Audit:	October 24 – 27, 2011
Date of Next Assessment:	October / November 2012
Audit team:	Lead auditor: Craig Roessler
Audit Report Distribution:	ArdeW Wood Products Ltd. KPMG PRI audit files
Audit objective(s):	The objective(s) of the audit was to evaluate the environmental and sustainable forest management systems at ArdeW Wood Products, their implementation, effectiveness and conformance with the requirements of the ISO 14001:2004 and CSA Z809-02 standards. These objective(s) were met.

Audit scope:	The scope of the audit included: <ul style="list-style-type: none"> • The elements of ISO 14001 and CSA Z809 outlined in the audit plan. • Activities conducted under the Company’s October 28, 2010 – October 27, 2011. • Visits to the Company’s Merritt, BC-based operations. • Follow-up on the status of previously identified minor nonconformities and opportunities for improvement. • Focus areas identified in the 2010 KPMG PRI audit report, including (1) efforts to expand the membership of the PAG and corresponding success; and (2) annual reporting by NRFL holders on applicable SFM plan targets.
Audit sample size:	Number of field sites visited during the audit: Roads: 4 Harvesting: 6 Silviculture: 3

D. Audit Findings

Good Practices

The following good practices were noted during the audit:

1. Both staff and contractors demonstrated an excellent level of awareness of EMS/SFM responsibilities and operational issues and requirements.
2. ArdeW continues to develop site plans and logging plans which contain an excellent level of detail to guide operational activities and these plans were found to reflect careful field layout to protect riparian, water quality and other resource values.
3. The operational controls provided to operators are well tailored to their operational needs. This includes machine- or activity-specific SOPs along with the above noted logging plans.
4. ArdeW does an effective job of working with First Nation groups to have PFRs conducted when directed to identify cultural heritage resource values and guide block development. An example observed in the field included the identification and protection of lithic sites identified through PFR work through the removal of a large proportion of the block (36-2).
5. Site plans and logging plans were found to have been effectively implemented on the active and completed harvest cutblocks visited. No field-related findings were identified during this audit.
6. The sample of planting and regen delay sites visited indicated that ArdeW’s silviculture program was prompt and effective and producing healthy, locally-adapted stands made up of ecologically-appropriate mixtures of tree species.

Follow-up on open nonconformities from previous audits

At the time of this assessment there were a total of 3 open nonconformities from previous audits. The audit team reviewed the implementation of the action plans developed by ArdeW Wood Products to address these issues, and determined the following:

- **2407/2407.01-NC-2010-01** (respecting SFMP addressing of CSA SFM Elements' 1.2 and 1.4 and ArdeW's corresponding processes for addressing species and ecological communities at risk) – While aspects of the action plans have been implemented to address this finding, there are a number of outstanding issues that still need to be addressed respecting this finding. **NC remains open as a minor nonconformity**
- **2407/2407.01-NC-2010-02** (respecting deficiencies in strategies for addressing Indicator 4.1.1 respecting net carbon intake) – Action plans were found to have been fully implemented. **NC is closed.**
- **2407/2407.01-NC-2010-03** (respecting the lack of documentation of current status for the Merritt SFMP indicators) – Year 1 action plans have been largely implemented and Year 2 action plans remain outstanding (as the due date for the latter is March 31, 2012). **NC remains open as a minor nonconformity**

See "ArdeW 14KPA_CSA RR Action Plan_status at 2011.doc" for full discussion on actions implemented to date and any outstanding issues pertaining to the above three minor nonconformities.

In addition, follow up on the status of the issues associated with the 6 opportunities for improvement identified during last year's audit during this assessment determined that 4 of the opportunities for improvement could now be closed (i.e., **2407/2407.01-OFI-2010-01, 2407/2407.01-OFI-2010-02, 2407/2407.01-OFI-2010-03 and 2407/2407.01-OFI-2010-05 are now closed**). However, the status of the remaining 2 opportunities for improvement is as follows:

- **2407/2407.01-OFI-2010-04** – Because the 2011 internal audit has yet to be completed it was not possible to assess whether the issues associated with this finding have been fully addressed. **OFI remains open**
- **2407/2407.01-OFI-2010-06** – There has been no changes to SFM Plan indicators' 1.1.3, 1.1.4, 2.2.1, 5.1.1 and 6.4.2 to address the identified weaknesses captured in this finding. **OFI remains open**

Nonconformities and opportunities for improvement issued to other participating licensees under the Nicola Thompson Fraser Sustainable Forest Management Plan

To the extent that any previously identified nonconformities and opportunities for improvement issued by KPMG PRI and other certifiers in relation to the Nicola Thompson Fraser SFM plan (and predecessor SFM plans, including the Merritt TSA SFM plan) and corresponding public participation processes apply to ArdeW Wood Products and have not yet been adequately

addressed, they are also applicable to ArdeW Wood Productsⁱ However, as this and other findings have already been reported previously they are not repeated here.

It should be noted that this audit included a CSA Z809-02 surveillance audit limited to selected CSA Z809 elements, including a focus on the status of previously identified findings and SFM indicators and targets which have changed since the last audit. It is therefore possible that any findings pertaining to the SFM plan that exist will not be detected in this audit. Consequently, any further nonconformities and opportunities for improvement which are issued in upcoming audits by KPMG PRI and other certifiers in relation to the Nicola Thompson Fraser SFM plan and corresponding public participation processes which are applicable to ArdeW Wood Products and have not been identified in this audit report are also applicable to the Company.

Major non-conformities

No major non-conformities were identified during the audit.

Minor nonconformities

The following minor nonconformity was identified during the audit:

1. **Minor non-conformity:** 2407/2407.01-NC-2011-01

Standard/Element(s): ISO 14001 4.5.4 Control of records
CSA Z809 7.5.3 Records

Client Procedure: EMS Manual, Sec. 5.3; Records Registry

ISO 14001 at 4.5.4 and CSA Z809 at 7.5.3 require the organization to establish and maintain those records necessary to demonstrate conformity to EMS/SFMS and ISO 14001/CSA Z809 requirements. To meet these requirement the ISO 14001 standard requires the organization to establish, implement and maintain procedures for the protection of records while the CSA Z809 standard requires records to be stored and maintained in such a way that they are readily retrievable and protected against damage, deterioration or loss. While the EMS Manual (Sec. 5.3) requires paper records to be stored in a manner to ensure protection from intentional or unintentional damage, neither the procedure nor the corresponding Records Registry specify how protection of these records is to be achieved (in contrast to electronic records, which as per the procedure are backed up weekly on the servers). The audit identified a number of records listed in the registry which are maintained only in hardcopy form in non-fireproof filing cabinets.

ⁱ An example of a significant finding identified elsewhere which also applies to ArdeW Wood Products (along with other licensees in the DFA) is the minor nonconformity TKA-2010-NC-05 (identified by KPMG PRI for BCTS – Kamloops Business Area (TKA) during the 2010 CSA Z809 surveillance audit). This nonconformity respects the lack of forecasting of indicators at an appropriate spatial scale and the related failure to validate the chosen strategy for managing landscape level biodiversity and wildlife habitat. The KPMG PRI auditors determined during a recent audit of TKA (week of Oct. 31, 2011) that insufficient progress has been made in implementing the action plans to address the issues in this finding and consequently it remains open as a minor nonconformity (and could be elevated to a major nonconformity during the next 2012 audit if significant progress has not been made by that point to address the associated issues). This nonconformity (along with other widely applicable nonconformities) will have an impact on the certification status of all licensees under the NTF SFM Plan (including ArdeW) if left unaddressed.

Opportunities for improvement

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement:** 2407/2407.01-OFI-2011-01

Standard/Element(s): ISO 14001 4.3.1 Environmental aspects

Client Procedure: EMS Manual, Sec. 3.1; Tables' 3.1-1, 3.1-2, 3.1-3 and 3.1-4

A review of Register of Environmental Aspects, Risk Assessment Register and Significant Aspects Summary found that overall the aspects list was complete, the risk rankings appeared reasonable and the resulting significant aspects were reasonably reflective of the significant environmental risks encountered by the organization. However, the following areas for improvement were identified:

- Inconsistencies between the Register of Environmental Aspects, Risk Assessment Register and Significant Aspect Summary:
 - The activity “Grinding” is associated with different environmental aspects in the Register of Environmental Aspects (“Reduce carbon emissions”), Risk Assessment Register (“Inadequate removal of waste and residue debris”) and Significant Aspect Summary (“Failure to remove logging debris by alternative methods other than burning”). In addition, a number of other environmental aspects pertaining to grinding are not listed in the Register of Environmental Aspects and risk rated in the Risk Assessment Register (e.g., failure to comply with operational controls, operation during inappropriate ground conditions, improper protection of drainage structures, etc.). Finally, the Significant Aspect Summary includes three underlying aspects which are not captured in the Register of Environmental Aspects or Risk Assessment Register in relation to this significant environmental aspect.
 - The Significant Aspect Summary includes “Inadequate Mountain Pine Beetle Control” as a significant environmental aspect and lists three underlying aspects as corresponding to it. However, neither the Register of Environmental Aspects nor the Risk Assessment Register includes this aspect or associates with it the three underlying aspects (the closest link is “inadequate forest health management” in relation to cutblock layout).
 - The Significant Aspects Summary includes “Failure to follow Seed Transfer Guidelines” as a significant environmental aspects and lists three underlying aspects as corresponding to it. However, the three underlying aspects are not captured in the Register of Environmental Aspects or Risk Assessment Register in relation to this significant environmental aspect.
- There is currently no aspect pertaining to the potential impacts of climate change on forestry activities (e.g., on the planting activity and associated adherence to seed transfer guidelines).
- The EMS Manual (Sec. 3.1) requires the Woodlands Group to review the above noted registers annually or as required to ensure new aspects and significant aspects are identified and updated. Interview evidence indicates that a thorough review involving all woodlands staff has not occurred since November 2009.

2. **Opportunity for improvement:** 2407/2407.01-OFI-2011-02

Standard/Element(s): ISO 14001 4.3.3 Objectives, targets and programs
ISO 14001 4.6 Management review

Client Procedure: EMS Manual, Sec. 3.3, 3.4 & 6.0; Tables' 3.4-1 & 6.1-1;
Management review meeting minutes

While it was confirmed that management reviewed the achievement of the 2010-11 objectives and targets during the October 19, 2011 management review, (1) the meeting minutes from this review do not clearly specify the level of achievement for all targets and (2) while the EMP Matrix documents the status of the actions (in the "Completion Date" column), it does not note the status on the achievement of the targets themselves.

In addition, the EMS Manual (Sec. 3.3) does not explicitly specify who is responsible for carrying out the first two tasks in the Procedure section and the Related Documentation section still references the Objectives and Targets Matrix, which has now been taken out of the EMS due to its redundancy with the EMP Matrix.

3. **Opportunity for improvement:** 2407/2407.01-OFI-2011-03

Standard/Element(s): ISO 14001 4.4.2 Competence, training and awareness
CSA Z809 7.4.2 Training, awareness, qualifications and knowledge

Client Procedure: EMS Manual, Sec. 4.2; Tables' 4.2-1, 4.2-2, 4.2-4, 4.2-5

While the training needs matrix requires specific staff and contractors to have SARA training, the Record of Training (Table 4.2-4) does not include this as a category required to be tracked.

Moreover, the EMS Manual (Sec. 4.2) indicates that the Record of Training (Table 4.2-4) and Contractor Employee EMS Training Completion Form 4.2-5 provide a summary of training sessions attended by Ardeu staff and contractors and that these training session records be recorded in the EMS computer system to provide a comprehensive training summary record for Ardeu staff and contractors. However, an additional training record is being generated and maintained to record the Ardeu led spring training of harvesting/roads contractors along with Ardeu woodlands staff (i.e., "Contractor Training Record) which is not mentioned in the procedure or recorded in the EMS computer system.

4. **Opportunity for improvement:** 2407/2407.01-OFI-2011-04

Standard/Element(s): CSA Z809 7.4.3 Communication

Client Procedure: EMS Manual, 4.3; SFM Plan; Merritt SFM Plan & 2010 Annual
Monitoring Report

CSA Z809 at 7.4.3.1 requires the organization to prepare and make public an annual report on its performance in meeting the SFM requirements. CSA Z809 element 7.4.3.4 further elaborates on the content requirements for the annual report, and indicates that progress, success, shortcomings, emerging issues, future plans, corrective actions and management commitment are some of the topics that an annual report should address.

Review of the 2010 annual monitoring report for the Merritt TSA SFM plan found that 3 of the targets (indicators' 2, 4 and 15) had not been met within the variances prescribed in the plan. However, although the annual monitoring report provided a rationale as to why the targets were not met, it did not describe what corrective/preventive actions (if any) were being taken to address them.

5. **Opportunity for improvement:** 2407/2407.01-OFI-2011-05

Standard/Element(s): ISO 14001 4.4.6 Operational control
CSA Z809 7.4.6 Operational procedures and control

Client Procedure: EMS Manual, 4.6 & 5.1; SOP-WoodsInsp-4

The field audit of active operations determined that operational controls were being effectively implemented overall. However, on one active block field reviewed (36-2) a 1202 label was missing from a small tidy tank in non-compliance with TDG regulation requirements.

Audit conclusions

The audit found that Ardeu Wood Products's environmental and sustainable forest management systems:

- Were in full conformance with the requirements of the ISO 14001 and CSA Z809 requirements included within the scope of the audit, except where noted otherwise in this report;
- Continue to be effectively implemented, and;
- Are sufficient to systematically meet the commitments included within the Company's environmental and SFM policy, provided that the systems continue to be implemented and maintained as required.

As a result, a decision has been reached by the lead auditor to recommend that Ardeu Wood Products continue to be certified to the ISO 14001 and CSA Z809 standards.

Once we have received and approved any required corrective action plans, the ISO 14001 certification file will be subject to a KPMG Independent Technical Review as required by our accreditation. Provided the Independent Technical Reviewer approves the recommendation, Ardeu Wood Products will receive a new ISO 14001 certificate of registration in approximately 4 weeks from the date of corrective action plan approval.

NB: 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 Ardeu Wood Products 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. ArdeW's achievement of the incremental requirements of the 2008 version of the CSA Z809 standard.
2. Status of nonconformities and opportunities for improvement identified during this audit as well as those remaining open from previous audits.
3. Higher risk ISO 14001 and CSA Z809 elements assessed during every audit and sub-set of other selected elements of both standards.
4. Any public claims and communications.
5. Any areas of increasing public debate or elevated environmental risk identified at the audit planning stage.
6. Any changes to the organization's activities, operations, forest practices and management systems.
7. Any significant changes in regulatory requirements.