



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

Ms. Alena Charlston, RPF
EMS Administrator
Carrier Lumber Ltd.
4722 Continental Way
Prince George, BC V2N 5S5

June 11, 2010

Dear Ms. Charlston:

Re: 2010 ISO 14001, CSA and PEFC Chain of Custody Audit Report for Carrier Lumber Ltd.

Our 2010 Audit Report for Carrier Lumber Ltd. is attached. The report documents the results of the audit that took place during the period June 7 – 10, 2010.

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 Carrier Lumber Ltd., 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 very truly,

Craig Roessler, RPF, CEA(SFM), EMS(LA)
President
KPMG Performance Registrar
(604) 691-3115

Enc: 2010 ISO 14001, CSA and PEFC Chain of Custody Audit Report for Carrier Lumber Ltd.



ISO 14001, CSA and PEFC Chain of Custody Audit Report for Carrier Lumber Ltd.

June 11, 2010

The information in this audit report is confidential and may be legally privileged. It is intended solely for the use of the intended recipient, Carrier Lumber Ltd.. 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	6
F.	Focus Areas for Next Audit Visit	6

A. Client Information

Client Name:	Carrier Lumber Ltd.
Audit Criteria:	ISO 14001:2004 CSA Z809:02 PEFC Annex 4
Scope of Registration:	<p>ISO 14001 (#2593.00) – Forestry and logging operations of Carrier Lumber Ltd. and Valemount Forest Products Ltd. (a wholly owned subsidiary), including the management of Crown Forest Licences A15429, A15430, A18158 and A70174 in the Prince George Forest Region.</p> <p>PEFC Annex 4 (#2593.02) – Manufacture and sale of softwood lumber products and chips by Carrier Lumber Ltd.</p> <p>CSA Z809, Prince George DFA (#2593.01) – Forestry operations on Crown forest land (Forest Licences A18158 and A70174 in the Prince George Forest District) including planning and performance within the Prince George Defined Forest Area.</p> <p>CSA Z809, Fort St. James DFA (#2593.03) – Forestry operations on Crown forest land (Forest Licences A18158 and A70174 in the Fort St. James Forest District) including planning and performance within the Fort St. James Defined Forest Area.</p>
Client Representative:	Alena Charlston
Assessment Number:	#2523.00 – ISO 14001 #2593.02 – PEFC Annex 4 #2593.01 – Prince George DFA CSA #2593.03 – Fort St. James DFA CSA

B. Document Review Findings

The document review identified 3 areas of concern with the requirements of ISO 14001 and CSA Z809 that were followed up on during the re-registration assessment. The first area of concern (respecting the internal audit report) is reflected in a minor nonconformity (NC #1) and an opportunity for improvement in this report (OFI #1). The issues associated with the remaining two areas of concern (respecting (1) the timing of the issuance of the SFMP annual reports and (2) the timeliness of provision of information in advance of PAG meetings and the completeness of the PAG members lists) were assessed during the re-registration assessment and the additional audit evidence reviewed supported the conclusion that these issues were being adequately addressed. Consequently, these two areas of concern were closed.

C. Audit Details

Type of Audit:	PEFC Annex 4 – Surveillance Audit ISO 14001 and CSA Z809 – Re-Registration
Dates of Document Review:	May 17 – June 4, 2010
Dates of Surveillance / Re-registration Audit:	June 7 – 10, 2010
Date of Next Assessment:	Spring 2011
Audit team:	Lead auditor: Craig Roessler Audit team members: Yurgen Menninga
Audit Report Distribution:	Carrier Lumber 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 Carrier Lumber Ltd., their implementation, effectiveness and conformance with the requirements of ISO 14001, CSA Z809 and PEFC Chain of Custody. These objective(s) were met.
Audit scope:	The scope of the audit included: <ul style="list-style-type: none"> • The elements of ISO 14001 CSA and PEFC Chain of Custody Registration outlined in the audit plan. • Activities conducted under the Company’s management system during the period September 30, 2009 – June 10, 2010. • Visits to the following Company operations: <ul style="list-style-type: none"> • Prince George DFA (ISO 14001 and CSA Z809) • Robson Valley (ISO 14001) • Fort St. James DFA (ISO 14001 and CSA Z809) • Tabor Mill, Prince George (PEFC CoC and logo usage)
Audit sample size:	Number of field sites visited during the audit: Roads: 12: 6 (FSJ); 6 (RV) Harvesting: 8: 4 (FSJ); 4 (RV) Silviculture: 8: 1 (FSJ); 3(PG); 4 (RV)

D. Audit Findings

Good Practices

The following good practices were noted during the audit:

1. An excellent communication strategy has been developed to ensure that stakeholders and interested public are kept informed of relevant forest planning, development, road deactivation and herbicide operations. Also, comprehensive and well documented external communication records are being maintained (e.g., completed correspondence report forms and supporting records).
2. Low levels of site disturbance observed on all blocks field reviewed.
3. The field audit observed that two planting crews demonstrated a high level of care in maintaining stream bank integrity and water quality in the construction (and in the case of 1 removal) of two temporary quad bridge crossings (987-1, 425-9, PG).
4. The Company demonstrated due care in contacting the local First Nations group and modifying the harvest plan to protect a trapper's trail that was discovered during the planning phase to be used by local First Nation members. The field audit determined that the modified plan prescription was effectively implemented to protect the trail (i.e., trees were stubbed along the trail, a five meter MFZ was applied and introduced material was removed) (421-2, FSJ).

Follow-up on open nonconformities from previous audits

At the time of this assessment there were a total of 2 open nonconformities from previous audits. The audit team reviewed the implementation of the action plans developed by Carrier Lumber Ltd. to address these issues, and found that they had been effectively implemented. As a result, all of the nonconformities identified during previous audits have now been closed.

Nonconformities and opportunities for improvement issued to other members of the Prince George and Fort St. James DFA Licensee Steering Committees

A number of recent nonconformities and opportunities for improvement have been issued by KPMG PRI in relation to the Prince George and Fort St. John SFM plans and public participation processes to other Licensee Steering Committee members (i.e., most recently during the February 2010 CSA Z809 audit of the BCTS Prince George Business Area). To the extent that these findings have not yet been fully addressed, these findings are also applicable to Carrier Lumber's operations in the DFAs. It is understood that joint action plans have been established by the Licensee Steering Committees to address all identified findings and because these findings have been previously reported they are not reported here.

Major Nonconformities

No major nonconformities were identified during the audit:

Minor Nonconformities

The following minor nonconformity was identified during the audit:

- Minor nonconformity:** 2010-NC-01
Standard/Element(s): CSA Z809: 7.5.4 Internal audit to the SFM requirements
Client Procedure: EMS Manual, Sec. 4.5.4; Prince George SFMP

The CSA Z809 standard at 7.5.4 requires the organization to establish and maintain procedures for annual internal audits which cover the audit scope, frequency, methods and requirements for conducting audits, auditor qualifications and reporting results. The Company has established its audit procedure in the EMS Manual (Sec. 4.5.4), which requires that an audit program be established and reviewed on an annual basis which includes such elements as objectives, purpose, scope and schedule for the audits.

A comparative review between the internal audit report/supporting audit records (i.e., completed audit protocol) from the most recent internal audit and the internal audit plan and schedule established for 2010 determined that not all required elements were assessed for the Prince George DFA. The audit report indicates that SFM requirements on the DFA were not assessed because operations had not been conducted in the operating year in this area, however there are a number of applicable elements pertaining to CCFM Criteria 1 through 6 that could have been field audited despite the lack of field operations (e.g., planning, silviculture, road maintenance, non-timber resource values being maintained on completed blocks, etc.). In addition, elements' 5.3.1 (PAG operating rules), 7.3.4 (rights and regulations) and 7.3.6.1 (setting DFA-specific performance requirements) were not assessed against for the PG DFA as required by the audit plan and schedule.

NB: All CSA Z809 elements specified on the audit plan and schedule respecting the Fort St. James DFA were assessed by the internal auditor as required.

Opportunities for improvement

The following opportunities for improvement were identified during the audit:

- Opportunity for improvement:** 2010-OFI-01
Standard/Element(s): ISO 14001: 4.5.5 Internal audit
CSA Z809: 7.5.4 Internal audit to the SFM requirements
Client Procedure: EMS Manual, Sec. 4.5.4

A review of the report from the latest internal audit determined that it could have been improved upon to address the following isolated weaknesses in reporting:

- The audit objective was not accurately specified (the objective instead related to the audit methodology).
- There were inconsistencies within the report respecting what operations were active and inactive.

2. **Opportunity for improvement:** 2010-OFI-02

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

Client Procedure: EMS Manual, Sec. 4.4.6; SOPs

The field audit determined that operational controls were being effectively implemented overall to reduce the environmental impacts associated with harvesting and road-related operations. However, the following isolated issues were identified during the field audit of completed operations where operational controls could have been more effectively implemented to better manage water and reduce the potential for erosion:

- Oversteepened slopes into two S6 streams and shallow cross ditching on the road leading to these streams were observed on a deactivated road where two wood culverts were pulled this past winter (701-1, Valemount).
- Sidecast material deposited on the low side of an on-block road was observed to be impeding water movement off the road resulting in runoff down the road surface and into class 3 & 4 terrain outside of the block. A terrain report recommended that surface runoff not be directed towards these areas.
NB: An additional contributing factor beyond Carrier's control was recent quad use on the road which resulted in damage to established cross ditches which had they not been damaged would have more effectively dispersed the water into the block (423-1, FSJ).

3. **Opportunity for improvement:** 2010-OFI-03

Standard/Element(s): CSA Z809: 5.3 PAG Process; 5.4 PAG Content

Client Procedure: Prince George SFMP; PG SFMP PAG Terms of Reference

A questionnaire was administered by KPMG PRI in advance of the audit to solicit input from Public Advisory Group (PAG) members on their satisfaction with the process and corresponding SFM issues of concern to them. 4 of the 5 Prince George PAG questionnaires returned included negative comments respecting the process (principally relating to the feeling that their concerns and input were not always seriously considered and/or their issues of concern were not adequately captured in the suite of SFMP indicators and targets).

An opportunity exists for the PG Licensee Steering Committee to explore opportunities that encourage more meaningful involvement of the PAG members (in keeping with the spirit of the consensus-based approach specified in the PAG Terms of Reference).

NB: It is understood that the PG Licensee Steering Committee is aware of some of the concerns respecting a perceived lack of meaningful input and has discussed during a recent committee meeting the need to address these concerns in advance of the development of the new SFMP.

4. **Opportunity for improvement:** 2010-OFI-04

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

Client Procedure: EMS Manual, Sec. 4.4.2; Training Needs Matrix

The company has established an effective process for ensuring position-specific EMS and operational training occurs. The audit determined that this process is being effectively implemented overall, however the field audit of active silviculture operations identified the following isolated weaknesses respecting the generation of complete contractor training records:

- Although one tree planting contractor (Brinkman) had completed the training log, it was incomplete in that it did not indicate that the required training topics had been covered. Also, the foremen had been trained but had not signed the training records (450-1, PG).
- Although one planting contractor (Artisan) had performed the EMS training with foremen and planters, the planters had not signed the training records (970-1, FSJ).

5. **Opportunity for improvement:** 2010-OFI-05

Standard/Element(s): ISO 14001: 4.4.7 Emergency preparedness & response
CSA Z809: 7.4.7 Emergency preparedness & response

Client Procedure: Fuel Management Plan

The Fuel Management Plan lists the recommended minimum spill kit contents (i.e. number of absorbent sheets) and goes on to state that the “spill kits have the amount and type of spill pads and materials appropriate to the types and amounts of hazardous materials being handled and stored”. In one isolated case the spill kit in the planter’s truck did not have all-purpose (grey) spill pads suitable for antifreeze. The kit was otherwise complete (450-1, FSJ).

Audit conclusions

The audit found that Carrier Lumber Ltd.’s environmental, chain of custody and sustainable forest management systems:

- Were in full conformance with the requirements of the ISO 14001 CSA Z809 and PEFC Chain of Custody 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, SFM and chain of custody policies, provided that the systems continue to be implemented and maintained as required.

As a result, a decision has been reached by the audit team to recommend that Carrier Lumber Ltd. continue to be registered to the ISO 14001, CSA Z809 and PEFC Chain of Custody standards.

Once we have received and approved any required corrective action plans, the CSA Z809 and ISO 14001 registration files will be subject to a KPMG Independent Technical Review as required by our accreditation. Provided the Independent Technical Reviewer approves the recommendation, Carrier Lumber Ltd. will receive replacement ISO 14001 and CSA Z809 registration certificates in approximately 4 weeks from the date of corrective action plan approval.

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 Carrier Lumber Ltd. 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. The status of the proposed development in the Fraser Flats operating area.
2. The implementation of action plans designed to address the above noted minor nonconformity and the status of the above noted opportunities for improvement.
3. Higher risk ISO 14001 and CSA Z809 elements assessed during every audit (i.e., significant changes in SFM indicators and targets; incorporation of public participation requirements; continuing operational control; monitoring and measurement; compliance evaluation; nonconformity, corrective and preventive action; internal audit; management review; etc.) and sub-set of other selected elements.
4. Any areas of increasing public debate or elevated environmental risk identified at the audit planning stage.
5. Any changes to the organization's activities, operations, practices and systems.
6. Any significant changes in regulatory requirements.