As part of Canfor's commitment to sustainable forest management and forest certification, an audit team from KPMG Performance Registrar Inc. completed the following assessments of Canfor's Houston woodlands operation in July 2004:

- Periodic assessment of operations within the Morice Timber Supply Area (TSA) to the Canadian Standards Association's standard for Sustainable Forest Management (CSA-SFM); and

The periodic assessment determined that the Sustainable Forest Management System (SFM) and EMS in use at the operation continue to meet the requirements of the CSA-SFM and ISO 14001 standards.

The combination of ISO 14001 and CSA-SFM registration demonstrates a strong commitment to sustainable forest management by the Houston operation, and is a significant achievement for Canfor. The combined assessment applies to a defined forest area (DFA) of 470,000 hectares, with an allowable annual harvest of 1,064,484 cubic meters.

**Background**

- Canfor's CSA SFM registration covers its forest management activities on Forest License A16828, which is located in the Morice TSA. The Company's forest practices are governed by the Morice TSA SFM Plan, which was developed by representatives of government, the forest industry, local stakeholders and various forestry consultants in fulfillment of a requirement of the Morice Innovative Forest Practices Agreement (IFPA).
- The ISO 14001 and CSA-SFM standards require regular assessments by an accredited Registrar to assess continuing conformance with the standards and the implementation of action plans arising from previous assessments.
- A team of two auditors conducted interviews with staff, contractors and stakeholders and examined EMS and CSA records, monitoring information and public involvement information.
- The team conducted field assessments of a total of 11 sites to assess the operation's planning, harvesting, silviculture and road construction, maintenance and deactivation practices.

**Noteworthy comments**

- Our assessment indicated that the SFM and EMS systems continue to be effectively implemented. No nonconformances were identified during our assessment.
- There have been significant improvements in the operation's EMS objectives and targets.
- Good progress is being made toward a decision scenario that will fine-tune a number of SFM indicators.
- The operation has developed an effective process to ensure its training program addresses training needs in a timely manner.
- SFM indicator monitoring appears comprehensive.
Findings - Canadian Forest Products Houston

- The operation has made good use of its Incident Tracking System for assigning clear responsibilities for implementing action plans to address identified incidents.
- The operation and public advisory group have maintained an effective process for SFM indicator review and revision.
- The management review format was well designed to support a comprehensive review of the requisite EMS and SFM issues.

Key Opportunities for Improvement

- In an isolated instance on one active harvest block reviewed in the field, the logging plan map was inconsistent with the site plan with respect to harvest restrictions on a portion of the block. The plan indicated winter harvesting while the logging plan map indicated no seasonal restrictions. Harvesting was taking place during summer (inconsistent with the site plan). However, our field assessment indicated that summer logging was appropriate for the site.
- Although deactivation of stream crossings was well conducted overall, in one isolated instance the erosion control measures were not implemented on the approach to an S3 stream resulting in minor ditchline erosion into the stream.
- Although an internal audit of the Houston operations had been conducted in 2004 and a draft summary prepared and presented at the time of the audit exit meeting, the final audit report had not been prepared in a timely fashion.
- A number of isolated weaknesses were noted with respect to the implementation of the operation's management system. These included:
  - a butt-n-top operator that did not have a copy of the block map,
  - a tidy tank that was not adequately tied down, and
  - the form used for determining inspection frequencies (harvesting and roads project risk matrix) was found to be inconsistently completed (although there was no evidence of insufficient inspections).

The Public Advisor Group has played a central role in SFM indicator review and revision.

CSA-SFM and ISO 14001 Periodic Assessments

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<td>Minor nonconformances</td>
<td>0</td>
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<tr>
<td>Opportunities for improvement</td>
<td>4</td>
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Major nonconformances:
- Are pervasive or critical to the achievement of the EMS/SFM Objectives.

Minor nonconformances:
- Are isolated incidents that are non-critical to the achievement of EMS/SFM Objectives.

All nonconformances require an action plan within 30 days and must be addressed by the operation.

Major nonconformances must be addressed immediately or registration cannot be achieved/maintained.

Opportunities for Improvement:
- Are not nonconformances but are comments on specific areas where improvements can be made.
Subsequent Events

Subsequent to the field audit KPMG received a complaint regarding the harvesting and processing of MSMA treated trees by the operation. An investigation was carried out which determined that there were weaknesses in the ranking of the environmental aspect related to the harvesting and processing of MSMA treated trees that led to the aspect not being considered significant. As a result, processes were not in place to reduce the risk of MSMA treated trees being delivered to the mill site and portions of these trees being burned in the beehive burner contrary to the permit requirements. The company has subsequently developed an action plan, approved by KPMG, to reduce this risk.

The operation is developing an approach to deal with the increasing incidence of Mountain Pine Beetle across its operating area.