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 Prince George Region woodlands operations in June 2003:

- Re-assessment of Tree Farm Licence (TFL) 30 to the Canadian Standards Association’s standard for Sustainable Forest Management Systems (CSA-SFM);
- Field assessment of Canfor’s Prince George woodlands as part of a corporate-wide periodic assessment to the ISO 14001 standard for Environmental Management Systems (EMS); and
- Periodic assessment of Canfor’s Prince George woodlands to the AF & PA’s Sustainable Forestry Initiative® (SFI) standard.

The audit determined that the Environmental Management System and Sustainable Forest Management System in use at Canfor’s Prince George Region continue to meet the requirements of the ISO 14001 and AF & PA’s SFI® standard and the requirements of the CSA-SFM standard continue to be met on TFL 30.

The combination of ISO 14001, SFI® and CSA-SFM assessments demonstrates a strong commitment to sustainable forest management and is a significant achievement for Canfor. The combined registration applies to an allowable annual harvest of approximately 4,500,000 cubic meters.

**Background**

- The ISO 14001, SFI® and CSA-SFM standards require regular audits by the Registrar to assess continuing conformance with the standards and the implementation of action plans related to previous assessments and changes to the standards.
- A team of three auditors conducted the assessments over a period of 18 man-days for the Prince George Region.
- The team conducted interviews with staff, contractors and stakeholders and examined EMS, CSA and SFI® records, monitoring information and public involvement information.
- The team conducted a field assessment of conformance, visiting 48 sites to assess operational planning, harvesting, silviculture, road construction, maintenance and deactivation, bridge installation, camp management and wood procurement operations.
- Formal CSA and SFI® findings generated from the audit were reported to Canfor staff at a divisional exit meeting following the field assessments. Being a corporate-wide periodic assessment, ISO 14001 findings will be rolled up with other related findings from other divisions and reported out at a corporate exit meeting planned for November 2003.
Noteworthy comments

- No nonconformances were identified in relation to the CSA-SFM or SFI™ audits for the Prince George woodlands operation indicating that the sustainable forest management systems have been effectively implemented. In addition, there were no findings identified in relation to the ISO 14001 or SFI™ standards on TFL 30. 1 opportunity for improvement was identified in relation to the CSA-SFM audit of TFL 30 and 5 opportunities for improvement were identified in relation to the SFI™ audit of Canfor’s Prince George forest licences.

- The operation has effectively addressed all nonconformances and opportunities for improvement identified during previous assessments.

- The new incident tracking system within the Genus environment is providing staff with the ability to manage their own action plans and better track implementation.

- The SFM indicators and targets are very well tracked and documented in a comprehensive annual report, which provides an excellent summary of SFM accomplishments.

- The Company has worked diligently in fine tuning the CSA indicators in the TFL.

- The Company’s commitment to enhanced public involvement opportunities continues through its public advisory group.

- A stream crossing quality index has been developed and implemented to help in assessing the potential risks of stream crossings delivering sediment to streams.

- The Company has shown prudence in shifting the focus of its harvesting in TFL 30 away from spruce- and balsam-leading stands and towards pine stands in the west to deal with the Mountain Pine Beetle outbreak.

<table>
<thead>
<tr>
<th>June, 2003 CSA-SFM Re-Assessment</th>
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<tbody>
<tr>
<td>Major nonconformances: 0</td>
</tr>
<tr>
<td>Minor nonconformances: 0</td>
</tr>
<tr>
<td>Opportunities for improvement: 1</td>
</tr>
</tbody>
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<table>
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<tr>
<th>June, 2003 SFI™ Periodic Assessment Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major nonconformances: 0</td>
</tr>
<tr>
<td>Minor nonconformances: 0</td>
</tr>
<tr>
<td>Opportunities for improvement: 5</td>
</tr>
</tbody>
</table>

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 the 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 of the EMS or SFM where improvements can be made.

The Company has shown prudence in concentrating much of its harvesting activities in pine stands in an attempt to deal with the Mountain Pine Beetle outbreak.
Performance against CSA-SFM and SFI\textsuperscript{SM} Objectives

Overall performance against the CSA-SFM and SFI\textsuperscript{SM} Objectives was very strong due to the existing CSA-SFM conforming sustainable forest management plan and the ISO 14001 certified EMS in addition to the development of SFI objectives for the operation’s procurement program. The field assessment of Canfor’s Prince George woodlands operation did not generate any non-conformances. The 1 CSA-SFM opportunity for improvement identified on the TFL and 5 SFI\textsuperscript{SM} opportunities for improvement identified on the forest licences were minor in nature.

Opportunities for improvement

CSA-SFM

* Although the Company makes earnest and determined efforts to solicit the involvement of aboriginal forest users and communities in such areas as the public advisory group and forest management planning, an opportunity exists to work more closely with local bands to help facilitate their future participation.

SFI\textsuperscript{SM}

* Field reviews of a sample of deactivated roads indicated that appropriate sediment control measures were being employed on the majority reviewed. However, in one isolated instance involving a pulled culvert on an in-block road (which drained a non-fish-bearing stream that flowed directly into a fish-bearing stream), sediment control measures had not yet been employed despite deactivation occurring 3 months previous.

* Best management practices were generally being followed when applying chemicals for brush control. It was noted however that on one block the application strips from an aerial spray operation ran obliquely rather than parallel to the bag line. Consequently, a small area of chemical treatment drifted across the bag line (although it did not enter the pesticide free zone).

* Field reviews of a sample of fuel dispensing and storage sites indicated that fuel storage and handling was generally appropriate and in conformance with the Company’s Fuel Management Standard. It was determined however that isolated instances occurred where the Company’s new risk assessment documentation procedure was not being properly implemented with respect to remote fuel storage sites.

* An opportunity exists to improve the Wood Procurement Policy and the form of the Log Purchase Agreement by amending them to reflect the commitment to the wood procurement auditing program.

* There is an opportunity to improve the wood procurement auditing program by including the legal right to harvest as one of the criteria measured.

A stream crossing quality index has been developed and implemented to help assess the potential risks of sediment delivery into streams resulting from stream crossings.

Through KPMG PRI, KPMG’s Vancouver based forestry specialist group is accredited to register forest companies to ISO 14001, CSA-SFM and AF&PA SFI certification standards. The group is led by Mike Alexander and consists of a highly qualified team of professional foresters and industry experts.

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