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Greg Demille  
Woodlands Manager  
Skeena Sawmills Ltd. 5330 Hwy 16 W  
P.O. Box 780 Terrace, BC  
Canada V8G 4R6

September 29, 2017

Dear Mr. Demille

**Re: 2017 SFI Forest Management/Fibre Sourcing and PEF Chain of Custody  
Certification Audit Report Skeena Sawmills Ltd.**

Our 2017 SFI Forest Management/Fibre Sourcing Surveillance Audit Report for Skeena Sawmills Ltd. is attached. The report documents the results of the audit that took place during the period of September 27-29, 2017 in Terrace, BC.

As communicated to you previously, 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 Skeena Sawmills Ltd., and appreciate the assistance provided to the audit team by Skeena Sawmills Ltd. 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,

Branden Beatty, R.P.Bio  
KPMG Performance Registrar Inc.  
Senior Assessor  
(204) 890 2057

Enc: 2017 SFI Forest Management/Fibre Sourcing and PEFC Chain of Custody  
Certification Audit Report Skeena Sawmills Ltd.



# **2017 SFI Forest Management/Fibre Sourcing and PEFC Chain of Custody Certification Audit Report**

**Skeena Sawmills Ltd/**

**September 27-29, 2017**

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## A. Client Information

|  |  |
|--|--|
| <b>Client Name:</b>                                  | Skeena Sawmills Ltd.   |
| <b>Audit Criteria:</b>                               | <ul style="list-style-type: none"> <li>SFI 2015-2019 Forest Management as well as Fibre Sourcing standards and all applicable appendices to the standard, PEFC ST 2002:2013</li> <li>The processes and documentation defined in the Company's management system</li> </ul> Applicable Laws and Regulations   |
| <b>Assessment Number and Scope of Certification:</b> | <p><u>SFI Forest Management Standard: PRI-SFI-FM-064</u><br/>           Forestry and logging operations (including planning, roads, harvesting and silviculture) on Skeena Sawmill's Treefarm License 41, Forest License A16885, and Forest License A16882 Management area</p> <p><u>SFI Fibre Sourcing Standard: PRI-SFI-FS-064</u><br/>           Fibre procurement for the company's Terrace sawmill.</p> <p><u>PEFC Chain of Custody Standard: 2589.</u> Lumber, residual chips, whole-log chips, hog/sawdust.</p> |
| <b>Client Representative:</b>                        | Greg Demille served as Skeena Sawmills Ltd. SFI and PEFC representative during the audit.  |

## B. Document Review Findings

The document review identified a total of 4 areas of concern in relation to the requirements of the SFI and PEFC CoC standards. Follow-up on these issues during the certification audit confirmed that they had all been addressed prior to the certification audit taking place. As a result, these issues have not been raised as findings in this certification audit report.

## C. Audit Details

|                                    |  |
|------------------------------------|--|
| <b>Type of Audit:</b>              | Certification audit  |
| <b>Audit integration:</b>          | This was an integrated audit against the following standards: SFI 2015-2019 Forest Management/Fibre Sourcing and PEFC CoC standards. |
| <b>Date(s) of Document Review:</b> | September 25-26, 2017  |
| <b>Date(s) of Audit:</b>           | September 27-29, 2017  |
| <b>Date of Next Assessment:</b>    | Fall 2018  |
| <b>Audit team:</b>                 | Lead auditor: Branden Beatty<br>Audit team members: Michael Alexander  |
| <b>Audit observers:</b>            | NA   |
| <b>Audit Report Distribution:</b>  | Skeena Sawmills Ltd.<br>KPMG PRI audit files<br>SFI Inc. (public summary report)   |

|  |  |
|--|--|
| <b>Audit objective(s):</b>   | <p>The objective(s) of the audit were to evaluate the quality/environmental/sustainable forest/chain of custody management system(s) at Company ABC to:</p> <ol style="list-style-type: none"> <li>1. Determine its conformance with the requirements of SFI 2015-2019 Forest Management Standard/SFI 2015-2019 Fibre Sourcing Standard and PEFC ST 2002:2013;</li> <li>2. Evaluate the ability of the system to ensure that Skeena Sawmills Ltd. meets applicable regulatory requirements;</li> <li>3. Evaluate the effectiveness of the system in ensuring that Skeena Sawmills Ltd. meets its specified objectives, and;</li> <li>4. Where applicable, identify opportunities for improvement.</li> </ol> <p>These objective(s) were met.</p> |
| <b>Audit scope:</b>  | <p>The scope of the audit included:</p> <ul style="list-style-type: none"> <li>• The elements of the SFI/ PEFC CoC standards outlined in the audit plan and organization’s activities and management system processes that pertain to them.</li> <li>• Activities conducted under the Company’s management system during the period September 26, 2016 - September 26, 2017</li> <li>• Visits to the following Company operations:             <ul style="list-style-type: none"> <li>• Skeena Sawmills Ltd.’s Terrace Sawmill</li> <li>• Associated Woodlands Operations</li> </ul> </li> </ul>   |
| <b>Significant Issues Impacting the Audit Program</b>                                  | <ul style="list-style-type: none"> <li>• No significant issues impacting the audit program were identified.</li> </ul>   |
| <b>Significant changes to the client’s management system since the previous audit:</b> | <ul style="list-style-type: none"> <li>• There were no significant changes to the management system since the last audit took place.</li> </ul>  |
| <b>Deviations from the audit plan:</b>   | <ul style="list-style-type: none"> <li>• There were no deviations from the audit plan.</li> </ul>  |
| <b>SFI Indicators:</b>   | <p>The audit involved an assessment of conformance against all of the applicable performance measures and indicators included in the 2015-2019 version of the SFI standard. None of the indicators included in the SFIS were modified or substituted for the purpose of this audit.</p>  |
| <b>Audit sample size:</b>  | <p>Number of field sites visited during the audit:</p> <p>Roads: 8<br/>         Harvesting: 7<br/>         Silviculture: 2<br/>         Procurement: 1</p>   |

## D. Audit Findings

The audit findings are summarized in this section of the report. Further details regarding the evidence obtained during the audit, audit findings and conclusions are included in the applicable audit checklist(s), which are retained by KPMG PRI as part of the formal audit file.

### Good Practices

The following good practices were noted during the audit:

1. Objective 2: The audit found the understory retention on block 2-1100-2A to be widespread and well protected.
2. General: The evidence packages provided for the document review were outstanding.
3. Objective 15: Final Inspections of two blocks were noted to be completed with great care to detail, including maps of slash piles, and culvert deactivation ('as-is' map).

The primary sources of evidence assessed to determine conformity with the SFI Forest Management Standard are presented in the following table:

| SFI Forest Management Objective #                         | Sources of Key Evidence of Conformity  |
|---|--|
| 1. Forest Management Planning                             | Forest management plan, geographic information system, forest inventory records, harvesting records, interviews with planning staff.   |
| 2. Forest Health and Productivity                         | Site plans, silviculture reports, field inspections.   |
| 3. Protection and Maintenance of Water Resources          | Field inspections of riparian areas, review of site plans & harvest plans.   |
| 4. Conservation of Biological Diversity                   | Forest management plan, FSP, site plans, interviews with planning staff, field inspections.  |
| 5. Management of Visual Quality and Recreational Benefits | Forest management plan, FSP, harvest plans, field inspections.   |
| 6. Protection of Special Sites                            | Forest management plan, FSP, site plans, special site inspections.   |
| 7. Efficient Use of Fibre Resources                       | Forest management plan, waste reports, field inspections.  |
| 8. Recognize and Respect Indigenous Peoples' Rights       | Company policy on Indigenous Peoples' rights, records of consultation with local Indigenous Peoples, pre-audit questionnaire responses, interviews with Company staff and representatives of local Indigenous Peoples. |
| 9. Legal and Regulatory Compliance                        | Forest management plan, environmental management plan (EMP), health & safety policy, field inspections, interviews with regulatory agency personnel.   |
| 10. Forestry Research, Science & Technology               | Forest management plan, EMP, records of research projects and funding, staff interviews.   |

| <b>SFI Forest Management Objective #</b>         | <b>Sources of Key Evidence of Conformity</b>  |
|--|---|
| 11. Training and Education                       | Forest management plan, EMP, training records, SIC minutes & resources, interviews with staff and contractors.  |
| 12. Community Involvement and Landowner Outreach | Forest management plan, EMP, SIC minutes & resources, community and landowner outreach records, staff interviews.   |
| 13. Public Land Management Responsibilities      | Records of cooperative public land planning processes, forest management plan, FSPs and associated referral process, site plans, records of plan referrals to local stakeholders, staff interviews. |
| 14. Communications and Public Reporting          | Certification summary report, annual report to SFI Inc.   |
| 15. Management Review and Continual Improvement  | Forest management plan, management review records, internal audit and related action plans.   |

### **Evidence of conformity with SFI 2015-2019 Fibre Sourcing Standard**

The primary sources of evidence assessed to determine conformity with the SFI Fibre Sourcing Standard are presented in the following table:

| <b>SFI Fibre Sourcing Objective #</b>                  | <b>Sources of Key Evidence of Conformity</b>   |
|--|--|
| 1. Biodiversity in Fibre Sourcing                      | Program to promote biodiversity in fibre sourcing, records of involvement in local or regional conservation efforts, interviews with procurement staff.  |
| 2. Adherence to Best Management Practices              | Fibre sourcing policy and records of its distribution to wood producers, written fibre sourcing agreements, records of implementation of the BMP monitoring system, inspection of a sample of procurement sites.     |
| 3. Use of Qualified Resource and Logging Professionals | List of Qualified Resource and Logging Professionals, records of proportion of fibre delivered by QLPs, interviews with procurement staff.   |
| 4. Legal and Regulatory Compliance                     | Company policies regarding regulatory compliance, procedures to ensure compliance with applicable regulatory requirements, inspection of a sample of procurement sites, interviews with regulatory agency personnel. |
| 5. Forestry Research, Science & Technology             | Records of research projects and funding, staff interviews.  |
| 6. Training and education                              | Training records, SIC minutes & resources, interviews with staff and contractors.  |

| SFI Fibre Sourcing Objective #   | Sources of Key Evidence of Conformity   |
|--|---|
| 7. Community Involvement and Landowner Outreach  | SIC minutes & resources, community and landowner outreach records, staff interviews.  |
| 8. Public Land Management Responsibilities   | Records of cooperative public land planning processes, records of plan referrals to local stakeholders, procurement staff interviews.   |
| 9. Communications and Public Reporting   | Certification summary report, annual report to SFI Inc.   |
| 10. Management Review and Continual Improvement  | Management review records, internal audit and related action plans.   |
| 11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas | Program with direct suppliers to promote the principles of sustainable forestry (POSF), records of direct supplier implementation of the POSF, interviews with procurement staff. |
| 12. Avoidance of Controversial Sources including Illegal Logging   | Controversial sources risk assessment, procedures to address any significant risks that have been identified, interviews with procurement staff.                                  |
| 13. Avoidance of Controversial Sources including Sources without Effective Social Lws                          | Controversial sources risk assessment, procedures to address any significant risks that have been identified, interviews with procurement staff.                                  |

### Follow-up on open non-conformities from previous audits

This assessment was an initial Certification audit, therefore were no open non-conformities from previous audits.

### Major non-conformities

No major non-conformities were identified during the audit.

### Minor non-conformities

The following minor non-conformities were identified during the audit:

1. **Minor non-conformity: CFP-2017-NC-01**

**Standard/Element(s): SFI FM 9**

**Client Procedure: Site Plan Amendments**

SFM FM Objective 9.2 requires the operation to have a system to achieve compliance with applicable laws and regulations. The audit noted that during the harvesting of block 5-5-36, a spur road had been added to the map and block due to harvesting access issues, and a large area was removed from the map and block, due to concentrated riparian issues. While these changes were discussed with forestry staff, no formal site plan amendment had occurred prior to their construction.

2. **Minor non-conformity: SFM-2017-NC-02**

**Standard/Element(s): SFI FM 15**

### **Client Procedure: Harvesting Site Inspections**

SFI FM Objective 15.2 requires program participants to have a system for collecting, reviewing, and reporting information to management regarding progress in achieving SFI 2015-2019 Forest Management Standard objectives and performance measures. While harvesting site inspections were being completed for block 5.5.36, the audit found a slash pile placed close (less than 30 m) to a wildlife tree patch had not be captured within the inspections.

#### **3. Minor non-conformity: SFM-2017-NC-03**

**Standard/Element(s): SFI FM 4**

**Client Procedure: Site Plan Development**

SFI FM Objective 4.8 requires the participant to consider the role of natural disturbance when developing forest management plans. The audit noted numerous blocks had boundaries planned and cut right up to OGMAs and wildlife conservations areas. No wind throw assessments were available to provide a rationale why wind throw mitigation around boundaries was not required.

### **Opportunities for improvement**

The following opportunities for improvement were identified during the audit:

#### **4. Opportunity for improvement: SFM-2017-OFI-01**

**Standard/Element(s): PEFC CoC**

**Client Procedure: PEFC Standard Operation Procedure**

PEFC CoC standard at 8.5.1 requires the Company to ensure and demonstrate that all personnel performing activities affecting the implementation and maintenance of the chain of custody are competent on the basis of appropriate training, education, skills and experience.

Key staff were found to be aware of the basic requirements related to their role in the CoC system. However, the system is very new and there is an opportunity to improve the understanding of the detailed CoC requirements through the provision of additional training and experience.

#### **5. Opportunity for improvement: SFM-2017-OFI-02**

**Standard/Element(s): SFI FM 15**

**Client Procedure: Management Review**

SFI FM Objective 15.2 requires program participants to have a system for collecting, reviewing, and reporting information to management regarding progress in achieving SFI 2015-2019 Forest Management Standard objectives and performance measures. Skeena Sawmills FSP provides, for each resource value that has an assigned objective, a stand-alone set of results and strategies for Skeena's primary forest activities that will be undertaken within the Kalum TSA, TFL 41, and the Nass TSA. The audit found that the management

review did not provide enough detail in order to determine whether Skeena Sawmills is evaluating performance pertaining to the various commitments under the FSP.

**6. Opportunity for improvement: SFM-2017-OFI-03**

**Standard/Element(s): SFI FM 15**

**Client Procedure: Harvesting Site Inspection frequency**

SFI FM Objective 15.2 requires program participants to have a system for collecting, reviewing, and reporting information to management regarding progress in achieving SFI 2015-2019 Forest Management Standard objectives and performance measures. The audit noted that harvesting site inspections were being completed according to a frequency assigned by a risk rating, however the operation was found to be lacking a risk rating assessment matrix ensuring the operation is applying a standard risk rating, and inspection frequency.

## **Audit conclusions**

The audit found that Skeena Sawmills Ltd. sustainable forest management system and PEFC CoC System:

- Was in full conformance with the requirements of the SFI and PEFC CoC requirements included within the scope of the audit, including the requirement to complete internal audits and management reviews at planned intervals, except where noted otherwise in this report;
- Has been/continues to be effectively implemented, and;
- Is sufficient to systematically meet applicable requirements and expected outcomes, provided that the system continues to be implemented and maintained as required.

In addition, the audit found that the scope of Skeena Sawmills Ltd. certification to SFI and PEFC standards is appropriate.

As a result, a decision has been reached by the lead auditor/audit team to recommend that Skeena Sawmills Ltd. be certified to the SFI and PEFC CoC standards.

NB: Our assessment by its nature is a sample of available information 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 Skeena Sawmills 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. Stream buffer procedure changes.
2. Full implementation of the certified volume credit input and sales tracking system.
3. Waste utilization advancements under Skeena Sawmills bioenergy program.