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

August 25, 2022

Dear Mr. Demille:

**Re: 2022 SFI Forest Management/Fiber Sourcing/PEFC CoC Surveillance Audit Report for Skeena Sawmills Ltd.**

Our 2022 SFI Forest Management and Fiber Sourcing Re-certification Audit Report for Skeena Sawmills Ltd. (Skeena) is attached. The report documents the results of the audit that took place during 2022.

Three minor non-conformities were identified during the audit. As a result, there is a requirement for you to develop and submit corrective action plans to address the findings of the audit. Corrective action plans are due within 30 days. 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, and appreciate the assistance provided to the audit team by Skeena 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,

Michael Buell  
KPMG Performance Registrar Inc.  
Manager  
(604)403-5023

Enc: 2022 SFI Forest Management and Fiber Sourcing Re-certification Audit Report for Skeena Sawmills Ltd.



# **2022 SFI Forest Management and Fiber Sourcing and PEFC Chain of Custody**

**Skeena Sawmills Ltd.**

**SFI – DR – August 18-19, 2022  
SFI On-site – August 22-25, 2022**

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## Table of Contents

A. Client Information.....	1
B. Document Review Findings.....	2
C. Audit Details .....	2
E. Corrective Action Plans .....	10
F. Focus Areas for Next Audit Visit.....	10

## A. Client Information

<b>Client Name:</b>	Skeena Sawmills. Ltd.
<b>Client Description</b>	Skeena sawmills Ltd. manages TFL 41, Forest License A16885 and Forest License A16882 in accordance with the SFI Forest Management Standard. Logs from these licences are supplemented by local regional log procurement from a mix of lands (including Crown land under the BCTS SFI Forest Management certification) to support the Skeena Cellulose sawmill in Terrace BC.
<b>Description of the Client's PEFC CoC System</b>	<p>Skeena sawmills Ltd. operates a PEFC CoC system with the following general attributes:</p> <ul style="list-style-type: none"> <li>• The scope of the CoC system is the Skeena Cellulose sawmill in Terrace BC;</li> <li>• Product groups are maintained for lumber, residual chips, whole log chips, hog, sawdust/shavings and logs</li> <li>• Outsourcing is limited to outsourced log storage in the water where segregation is maintained.</li> <li>• The CoC method used is the volume credit method based on a 12 month rolling average,</li> <li>• Use of the PEFC trademarks is confined to off-product application.</li> <li>• A management system has been established in the CoC PEFC Standard Operating Procedure V4.1 to manage the chain of custody.</li> </ul>
<b>Audit Criteria:</b>	<p>SFI 2022 Forest Management (FM) and Fiber Sourcing (FS) standards PEFC ST 2002:2020 All applicable appendices to these standards The processes and documentation defined in the Company's management system Applicable Laws and Regulations</p>
<b>Assessment Number and Scope of Certification:</b>	<p>SFI Forest Management : PRI-SFI-FM-077 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>SFI Fiber Sourcing: PRI-SFI-FS-077 Fiber procurement for the company's Terrace sawmill.</p> <p>PEFC CoC:2666 Lumber, residual chips, whole-log chips, hog/sawdust.</p>
<b>Client Representative:</b>	Mr. Greg Demille

## B. Document Review Findings

The document review did not identify any areas of concern in relation to the requirements of the current SFI FM and FS standards. As a result, there were no issues arising out of the document review that required follow-up during the certification audit.

## C. Audit Details

<b>Type of Audit:</b>	Re-certification audit
<b>Audit Plan</b>	The audit plan dated July 15, 2022 was provided to the Company 3 weeks in advance of the planned audit date. This audit report summarizes key elements of the audit plan. However, the reader is directed to the actual document for all of the specific details regarding the approved audit plan.
<b>Audit Integration:</b>	This was a combined audit against the following standards: SFI 2022 Forest Management and Fiber Sourcing and PEFC CoC.
<b>Date(s) of Document Review:</b>	August 18-19, 2022
<b>Date(s) of Audit:</b>	August 22-25, 2022
<b>Date of Next Assessment:</b>	Fall 2023
<b>Audit team:</b>	Lead auditor: Mike Buell, RPF (SFI lead) Audit team members: Cynthia Lu, RPF Bodo von Schilling RPF, EP(EMSLA) (PEFC lead)
<b>Audit observers:</b>	There were no observers present during the audit.
<b>Audit Report Distribution:</b>	Skeena Sawmills Ltd. KPMG PRI audit files SFI Inc. for the public summary report
<b>Audit objective(s):</b>	The objectives of the audit were to evaluate the sustainable forest management, fiber sourcing and Chain of Custody systems at Skeena Sawmills Ltd. to: <ol style="list-style-type: none"> <li>1. Determine their conformance with the requirements of SFI 2022; PEFC ST 2002:2020;</li> <li>2. Evaluate the ability of the system to ensure that Skeena Sawmills Ltd. continues to meet 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> These objectives were met.

<b>Audit scope:</b>	<p>The scope of the audit included:</p> <ul style="list-style-type: none"> <li>• The elements of the SFI and PEFC Standards identified as within scope in the Evidence of Conformity tables in this report;</li> <li>• Activities conducted under the Company’s management system since the last audit (October 29, 2021).</li> <li>• Visits to the following Company operations: <ul style="list-style-type: none"> <li>• TFL 41</li> <li>• Forest License A16885</li> <li>• Forest License A16882.</li> </ul> </li> </ul>
<b>Significant Issues Impacting the Audit Program:</b>	No significant issues impacting the audit program were identified.
<b>Significant changes to the client’s management system since the previous audit:</b>	There were no significant changes to the management system since the last audit took place.
<b>Audit Techniques Used:</b>	The audit included document review and on-site staff and contractor interviews and field observations.
<b>Use of information and communication technology (ICT) during the audit and its effectiveness in achieving the audit objectives:</b>	<p>KPMG Sharefile and Box were made available for file transfer. MS Teams was used for staff office interviews.</p> <p>The use of ICT was determined to be effective in allowing the audit to gather sufficient evidence to form audit conclusions.</p>
<b>Communication with Indigenous Peoples, government agencies and external stakeholders:</b>	Review of First Nations, government agency, and external stakeholder correspondence records including emails and communication logs. Interaction with government agencies to confirm proper systems and procedure concerning findings in this audit report.
<b>Deviations from the audit plan:</b>	There were no deviations from the audit plan.
<b>SFI Indicators:</b>	<p>The audit involved an assessment of conformance against all of the applicable performance measures and indicators included in the 2022 version of the SFI standard selected for audit in 2022. None of the indicators 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: 1 Harvesting: 3 Silviculture: 2 Special Site: 1 AIA/CMT, 1 VQO Procurement: 2</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. SFI Forest Management Objective 7 (Indicator 7.1.1) requires that Program Participants have a program or monitoring system to ensure efficient utilization. During the site visit to a cutblock, a harvester calibration was performed to ensure products were being produced per the block specifications. This type of testing is performed on a regular basis to ensure merchantable products are maximized while minimizing waste.
2. SFI Forest Management Objective 4 (Indicator 4.1.1) require that Program Participants have a program to incorporate the conservation of native biological diversity, including species, wildlife habitats, and ecological community types at stand and landscape levels. During the site visit to cutblock, a contractor discussed and demonstrated the use of high stumping to clearly identify and protect an area of in-block retention.
3. SFI Forest Management Objective 5 (Indicator 5.4.1) requires that Program Participants provide recreational opportunities for the public, where consistent with forest management objectives. During block layout a trail was discovered and buffered which resulted in splitting the block in half to protect the trail.
4. PEFC Clause 4 (Requirement 4.5.2) requires that Organizations shall identify, provide and maintain the infrastructure and technical facilities needed for effective implementation and maintenance of its PEFC chain of custody with the requirements of this standard. During the site visit it was demonstrated that an unmarked load of wood was seized due to lack of a proper timbermark and documentation. This load of wood was segregated by decking it separately in the yard and also flagging the load.

### Evidence of conformity with SFI 2022 Forest Management Standard

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, system reviews, interviews with planners, field inspections.
3. Protection and Maintenance of Water Resources	Field inspections of riparian areas, review of site plans & harvest plans, interviews with planning staff.
4. Conservation of Biological Diversity	Forest management plan, FSP, site plans, interviews with planning staff, field inspections.

<b>SFI Forest Management Objective #</b>	<b>Sources of Key Evidence of Conformity</b>
5. Management of Visual Quality and Recreational Benefits	Forest management plans, review of visual quality assessments and plans, 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 plans, waste reports, field inspections.
8. Recognize and Respect Indigenous Peoples' Rights	Company policy on Indigenous Peoples' rights, records of consultation with local Indigenous Peoples, interviews with Company staff.
9. Climate Smart Forestry	Forest management plans, climate change risk and mitigation plans, review of records indicating involvement in climate forest research, interview with Company staff.
10. Fire Resilience and Awareness	Forest management plans, environmental management plan (EMP), review fire preparedness plans, climate change risk and mitigation plans, review of records indicating involvement in fire awareness programs, interview with Company staff.
11. Legal and Regulatory Compliance	Forest management plan, environmental management plan (EMP), health & safety policy, field inspections, interviews with regulatory agency personnel.
12. Forestry Research, Science & Technology	Forest management plans, EMP, records of research projects and funding, staff interviews.
13. Training and Education	Forest management plans, EMP, training records, SIC minutes & resources, management review minutes & resources, interviews with staff and contractors.
14. Community Involvement and Landowner Outreach	Forest management plans, EMP, SIC minutes & resources, community and landowner outreach records, staff interviews.
15. 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.
16. Communications and Public Reporting	Certification summary report, annual report to SFI Inc.
17. Management Review and Continual Improvement	Forest management plan, management review records, internal audit and related action plans.



## Evidence of conformity with SFI 2022 Fibre Sourcing Standard

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

SFI Fibre Sourcing Objective #	Sources of Key Evidence of Conformity
1. Biodiversity in Fibre Sourcing	Program to promote biodiversity in fiber sourcing, records of involvement in local or regional conservation efforts, interviews with procurement staff.
2. Adherence to Best Management Practices	Fiber sourcing policy and records of its distribution to wood producers, written fiber sourcing agreements, records of implementation of the BMP monitoring system, inspection of a sample of procurement sites.
3. Use of Qualified Resource Professionals, Qualified Logging Professionals and Certified Logging Companies	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.
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.
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. Avoid Controversial Sources	Controversial sources risk assessment, procedures to address any significant risks that have been identified, interviews with procurement staff.

### Use of Certification Documents and Marks

The audit found that Skeena Sawmills is effectively controlling the use of the certification documents and marks.

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

At the time of this assessment there were three open non-conformities related to PEFC.

- Minor non-conformity: Skeena-NC-2021-01  
Standard/Element(s): PEFC 6.3.4.2.6  
Client Procedure: Skeena Sawmills PEFC- Standard Operating Procedure and Volume Credit Account  
This finding was related to an incorrect calculation in the account balance of the volume credit ledger. **Review of the credit ledger indicates that a correction has been made and accounted balances are correct.**
- Minor non-conformity: Skeena-NC-2021-02  
Standard/Element(s): PEFC 6.3.3.6  
Client Procedure: Skeena Sawmills PEFC- Standard Operating Procedure and Volume Credit Account  
This finding was also related to the credit ledger with the incorrect calculation of the 12-month rolling average percentage. **This issue was reviewed, and the current month certification percentage is not being used in the 12-month rolling average.**
- Minor non-conformity: Skeena-NC-2021-03  
Standard/Element(s): PEFC 4.1.2  
Client Procedure: Skeena Sawmills PEFC- Standard Operating Procedure  
This finding was related to transferring credits and not having credit transfer approval letter. **It was demonstrated that BCTS letters approving the transfer of credits are being obtained.**

**As noted above review of these findings and supporting documentation has resulted in the closure of the PEFC non-conformities from the previous audit.**

### **Major non-conformities**

No major non-conformities were identified during the audit.

### **Minor non-conformities**

The following minor non-conformities which are common amongst the *2015-2019 and 2022 SFI FM and FS standards* were identified during the audit:

#### **1. Minor non-conformity: Skeena-NC-2022-01**

**Standard/Element(s): SFI FM 13.1.4, SFI FS 6.1.4**

**Client Procedure: Demonstrate contractor education and training**

The SFI FM indicator @13.1.4 states (SFI FS @ 6.1.4 uses same wording):

*“Contractor education and training sufficient to their roles and responsibilities.”* Harvesting contractor crew on-site supervisors, alternate supervisors and crew members interviewed during the audit demonstrated inconsistent knowledge of the SFI program, and company SOPs and BMPs.

Minor non-conformities related to the *new 2022 SFI FM and FS standard* **are reported to assist with the implementation** of new requirements and Skeena Sawmills Ltd. has until December 31<sup>st</sup>, 2022 to complete action plans. The following minor non-conformities are related to the *new 2022 SFI FM and FS standard* were identified during the audit:

2. **Minor non-conformity: Skeena-NC-2022-02**

**Standard/Element(s): SFI FS 1.2.1**

**Client Procedure: Review purchase overlap with FEVC areas**

The SFI FS indicator @1.2.1 states:

*“SFI-certified organizations shall conduct an assessment, individually and/or through cooperative efforts involving SFI Implementation Committees, of Forests with Exceptional Conservation Value, defined as critically imperiled and imperiled species and ecological communities, within their wood and fiber supply area(s) and make the summary of the assessment available to wood producers.”* Query to determine if purchase wood overlaps with critically imperiled species and ecological communities is not currently being completed as part of the Purchase Wood Assessment process.

3. **Minor non-conformity: Skeena-NC-2022-03**

**Standard/Element(s): SFI FM 9.2.3**

**Client Procedure: Develop a reporting program to address GHG emissions**

The SFI FM indicator @9.2.3 states:

*“Based on best scientific information, Certified Organizations shall develop a program to identify and address greenhouse gas emissions within their operational control.”* While Skeena is reporting on GHG emissions for the bioenergy plant, progress has not been made on the program and methods for reporting on GHG emissions from woodlands operations.

4. **Minor non-conformity: Skeena-NC-2022-04**

**Standard/Element(s): PEFC 7.1.1**

**Client Procedure: Due Diligence System**

In order to avoid controversial sourcing, the PEFC standard at indicator 7.1.1 requires the organization to implement a due diligence system, also consistent with appendix 1 of the standard. The Skeena Due Diligence System procedures are provided in the DDS Risk Assessment and in the Skeena CoC SOP. Skeena meets the requirement of the standard by assessing groupings of suppliers and Skeena clearly understands sourcing risk. While Skeena finds negligible risk at Table 1 indicator 1(a) (ie.since all supply is from the Skeena SFI FM or FS certifications), the determination is inconsistent with the conclusion at Table 1 indicator 1(c) where Skeena finds significant risk for all supply from private land. Further assessments of risk offered by Skeena according to the criteria of Appendix 1 Tables 2 & 3 is not required as specified in the standard at Appendix 1 indicator 3.4.

## **Opportunities for improvement**

The following opportunities for improvement were identified during the audit:

1. **Opportunity for improvement: Skeena-OFI-2022-01**

**Standard/Element(s): SFI FM 3.2.1**

**Client Procedure: Skeena Sawmills SFM and EMS System**

The SFI FM indicator @3.2.1 states:

*“Program addressing management and protection of rivers, streams, lakes, wetlands, other water bodies and riparian areas during all phases of management”.* Skeena has a Best Management Practices for Water Quality SOP. In this SOP there are commitments to

establish machine free zones (MFZ) on all classified drainages without established RRZ, to avoid decking timber in RMA were practical, and locating logging debris outside of RMAs where practical. To avoid impacts to water quality, standardize field marking expectations for classified drainages (MFZ and stream ribbon). Field marking should be easily visible to machine operators. Consider marking MFZ's beyond ground-based and cable harvest system split lines in case yarding methods are modified.

**2. Opportunity for improvement: Skeena-OFI-2022-02**

**Standard/Element(s): SFI FM 2.2.1**

**Client Procedure: PEFC Chain of Custody Standard Operating Procedure & Due Diligence System – Risk Assessment**

Skeena has procedures to conduct site inspections of procurement sites where risk assessment indicators identify significant risk of sourcing controversial fibre. While Skeena has identified the risk of sourcing controversial fibre as negligible, Skeena conducts site inspections anyway since staff generally view the fibre purchase site for business purposes. An inspection program to confirm that controversial fibre is not sourced can also meet requirements of the Standard for monitoring best practices as required by the SFI Fibre Sourcing Standard at indicator 2.2.1.

## **Audit conclusions**

The audit found that Skeena Sawmill's sustainable forest management and fiber sourcing systems and PEFC Chain of Custody:

- Were in full conformance with the requirements of the SFI and PEFC 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;
- Continue to be effectively implemented, and;
- Are 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's certification to the SFI and PEFC standards are appropriate.

As a result, a decision has been reached by the lead auditor to recommend that Skeena Sawmill Ltd's be re-certified to the SFI standards.

Once we have received and approved any required corrective action plans, the certification file will be subject to a KPMG Independent Technical Review. Provided the Independent Technical Reviewer approves the recommendation, Skeena Sawmill Ltd. will receive a certificate of registration in approximately 4 weeks from the date of corrective action plan approval.

NB: Our assessment by its nature is a sample of available information and is not intended to be as comprehensive as your own internal performance monitoring processes. 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 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. Review of the survey and planting program including site visits;
2. Progress on developing a climate adaptation plan and management strategy; and
3. Continued participation in the local wildfire committee and progress in establishing a co-chair.