

REPORT

Forest Certification



Atco Wood Products Ltd.

July 2010

In July 2010, an audit team from KPMG Performance Registrar Inc. (KPMG PRI) carried out an SFI surveillance audit of Atco Wood Products Ltd's woodlands operations in south central British Columbia (BC) against the requirements of the 2010 - 2014 edition of the Sustainable Forestry Initiative® (SFI) standard. To provide for a more efficient audit, an ISO 14001 surveillance audit was conducted at the same time. This summary report provides an overview of the process and KPMG's findings.

Background

The implementation of an SFI® system assures the public that the Atco's operations are conducting sustainable forest management to the SFI 2010-2014 Standard defined by the Sustainable Forestry Board. This standard consists of 20 broad forestland management and fiber sourcing objectives, each of which has a number of indicators that must be met in order to achieve verification requirements.



Atco's Crown Land Forest Operations

Atco's Crown land woodlands operations are situated in south central BC, Canada and currently comprise forest licences' FL A20193 in the Arrow Timber Supply Area (TSA) and FL A20218 in the Kootenay Lake TSA, which are part of the Southern Interior Forest Region of BC.

Four statutes form the legal framework for forest management on Crown lands in BC: the Forest Act, the Forest and Range Practices Act (FRPA), the Forest Practices Code of British Columbia Act (FPC) and the Ministry of the Forests Act. Numerous other provincial and federal acts, regulations, guidelines and policies also have implications for forestry operations on Crown lands. Replaceable forest licences in BC are tenures granted by the BC Minister of Forests under the authority of the Forest Act. The allowable annual cut (AAC) of each timber supply area (TSA) is determined by the provincial Chief Forester at least once every 5 years. The AAC for FL A20193 is 166,489 m³ and for FL A20128 is 20,167 m³.

FRPA and its regulations in particular set the requirements for planning, road building, logging, reforestation and grazing and define planning processes and prescribe levels of protection for forest values. Forest licencees are required to develop a Forest Stewardship Plan (FSP) to meet the requirements of FRPA. Atco Wood Products Ltd. received approval of their first Forest Stewardship Plan on December 21, 2006.



FRPA took effect on Jan. 31, 2004. Any activities already approved under the pre-existing FPC were grandfathered and continue to be governed by the FPC Act and its regulations. Once transition is complete all forest licensees will operate solely under FRPA, with previous plans (i.e., Forest Development Plan (FDP)) being replaced by FSPs developed under FRPA.

Atco has developed a Sustainable Forest Management Plan (SFMP) which describes how the company will achieve the broad objectives of higher level plans developed under public involvement processes such as the Kootenay Boundary Land Use Planning Process. It also guides the development and content of other planning documents including the FDP and FSP. The SFMP reflects the bounds established by higher level plans and through the regulatory framework described above. The company ensures that all lower-level plans it is responsible for developing (e.g.: the FSP, and all site level plans) are consistent with the commitments made in their SFMP.

Atco's Crown land woodlands operations are managed by the Company from offices in Fruitvale, BC.

Scope of Certification

Woodlands operations on Forest Licences A20193 and A20218 including planning, operations and the fiber sourcing program.

The Surveillance Audit

- *Surveillance Audit approach* – Surveillance audits are designed to provide evidence of continuing implementation of SFI requirements and require a full assessment of performance against selected applicable elements of the standard.
- *Audit Team* – The surveillance audit was conducted by a two person audit team comprising a registered professional forester and a professional geologist. The lead auditor on the engagement, Craig Roessler, was a Certified Environmental Auditor and Environmental Management System (EMS) Lead Auditor.
- *SFI Program Representative* – Andrea Vienneau, RPF served as Atco's SFI program representative during the audit.
- *On-site Audit* – The audit conducted July 5 – 7, 2010 involved an on-site assessment of the Company's Fruitvale, BC-based forestry operations' conformance to the requirements of the SFI standard.
- *Audit Focus Areas* – In addition to assessing actions taken with respect to the opportunity for improvement identified during the 2009 surveillance audit and actions to maintain SFI conformance against selected elements sampled during this audit, the 2010 audit assessed performance against the additional requirements of all applicable SFI 2010-2014 objectives.

Types of Audit Findings

Major nonconformities:

Are pervasive or critical to the achievement of the SFI objectives.

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

Minor nonconformities:

Are isolated incidents that are non-critical to the achievement of the SFI objectives.

All nonconformities require an action plan within 30 days and must be addressed by the Operation.

Opportunities for Improvement:

Are not nonconformities but are comments on specific areas of the SFM System where improvements can be made.

2010 Audit Findings

New Major nonconformities	0
Remaining open nonconformities from previous assessment	0
New Minor nonconformities	2
New Opportunities for Improvement	1

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- *Audit Sample* – The audit involved document review, interviews and inspection of roads, harvesting practices and regeneration strategies on 11 sites.

Use of Substitute Indicators

No substitute indicators were evaluated during the audit.

Audit Objectives

A SFI surveillance audit to evaluate the Company’s conformance with the requirements of the 2010-2014 version of the SFI standard.

An ISO 14001 surveillance audit against selected elements of ISO 14001:2004 was conducted concurrently with the SFI surveillance audit.

Audit Conclusions

The surveillance audit results indicated that Atco’s forest land management and fiber sourcing operations met the requirements of the 2010-2014 version of the SFI standard in all material respects. As a result, a decision has been made to grant certification to the SFI 2010-2014 standard for the duration of the Company’s existing certification. The Atco SFI certification is valid until July 5, 2011.

Primary sources of evidence assessed to determine conformity with the SFI 2010-2014 standard are presented in the following table:

SFI Objective #	Key Evidence of Conformity
1 – Forest Management Planning	FSP, SFMP, Kootenay-Boundary Higher Level Plan Order (KBHLP), Cut Control Performance Summaries, Kootenay Lake and Arrow TSAs’ AAC apportionments, inventory audit results, Vegetation Resources Inventory data, mountain pine beetle attack severity maps; Kootenay Lake Timber Supply Review (TSR) 2 AAC Rationale, Analysis Report, Information Report, Summary of Public Input; Kootenay Lake TSR 3 Data Package, Information Report, Timber Supply Analysis Discussion Paper; Arrow TSR 3 AAC Rationale, Timber Supply Analysis Report; Innovative Forest Practices Agreement (IFPA) Rationale for AAC Increase.
2 – Forest Productivity	FSP, site plans, planting prescriptions, planting records, brushing activity records, silviculture survey records, harvest, road and silviculture inspection reports, field inspections.
3 – Protection and Maintenance of Water Resources	Not in scope.
4 – Conservation of Biological Diversity including Forests with	Not in scope.

Applicable SFI Objectives

Forest Land Management Objectives (1 – 7)

- **Objective 1** – Forest Management Planning
- **Objective 2** – Forest Productivity
- **Objective 3** – Protection and Maintenance of Water Resources
- **Objective 4** – Conservation of Biological Diversity including Forests with Exceptional Conservation Value
- **Objective 5** – Management of Visual Quality and Recreational Benefits
- **Objective 6** – Protection of Special Sites
- **Objective 7** – Efficient Use of Forest Resources

Fiber Sourcing Objectives (within North America) (8 – 10)

- **Objective 8** – Landowner Outreach
- **Objective 9** – Use of Qualified Resource and Qualified Logging Professionals
- **Objective 10** – Adherence to Best Management Practices

Forest Land Management and Fiber Sourcing Objectives (14 – 20)

- **Objective 14** – Legal and Regulatory Compliance
- **Objective 15** – Forestry Research, Science and Technology
- **Objective 16** – Training and Education
- **Objective 17** – Community Involvement in the Practice of Sustainable Forestry
- **Objective 18** – Public Land Management Responsibilities
- **Objective 19** – Communication and Public Reporting
- **Objective 20** – Management Review and Continual Improvement

Notes:

Because all of Atco’s fiber supply originates from within Canada, Objectives’ 11, 12 and 13 are not applicable to the Company.

SFI Objective #	Key Evidence of Conformity
Exceptional Conservation Value	
5 – Management of Visual Quality and Recreational Benefits	Not in scope.
6 – Protection of Special Sites	Not in scope.
7 – Efficient Use of Forest Resources	Not in scope.
8 – Landowner Outreach	Not in scope.
9 – Use of Qualified Resource and Qualified Logging Professionals	Not in scope.
10 – Adherence to Best Management Practices	Not in scope.
11 – 13	NA – Atco does not source fiber from outside North America.
14 – Legal and Regulatory Compliance	SFMP, EMS, management review meeting minutes, EMS and operational inspections, internal audit records, compliance tracking records, MoF compliance and enforcement records, action plans, occupational health & safety policy, Electronic and hardcopy laws and regulations, field inspections.
15 – Forestry Research, Science and Technology	SFMP, records of involvement with research projects.
16 – Training and Education	Not in scope.
17 – Community Involvement in the Practice of Sustainable Forestry	SFMP, FSP and associated referral information, KBHLP, management review meeting minutes, training records, Western Canada SIC minutes & resources, Wood Procurement Information Package, RF-07 – Records of Relevant Public Inquiry, RF-18 – Records of Education and Outreach.
18 – Public Land Management Responsibilities	SFMP, FSP and associated referral information, KBHLP, site plans, First Nations and stakeholder correspondence, communication and meeting records, Archeological Overview Assessments (AOAs) and Archeological Impact Assessments (AIAs).
19 – Communication and Public Reporting	2009 SFI Progress Report, Previous SFI certification summary reports.
20 – Management Review and Continual Improvement	SFMP, EMS, management review meeting minutes and associated input/output records (including documented evaluation of performance against SFI objectives and performance measures), internal audit records, field inspection records.



The field audit observed numerous examples of effectively implemented road, crossing and trail deactivation and rehabilitation practices.

In addition to the key audit evidence reviewed for those SFI objectives within the scope of this audit as noted in the table above, additional audit evidence was reviewed as part of a cross-walk assessment conducted to

evaluate the Company's conformance with the additional requirements of the SFI 2010-2014 standard, including in relation to those SFI objectives that were not in scope during this surveillance audit.

Good Practices

- **Objectives 2** – The Company continues to practice effective and responsive site preparation and planting activities, including effective on-block road, crossing and trail rehabilitation to minimize the loss of productive land and prompt (over 98% of the Company's blocks are planted within 1 year of final harvest) planting of a diversity of tree species that are well targeted to the sites.
- **Objective 2** – The field audit observed excellent examples of corduroying and brush-matting of wet areas along skid trails and temporary roads.
- **Objectives' 2, 3, 4, 5 and 6** – Logging plan maps provide excellent levels of detail and associated guidance on key operational and resource issues associated with the blocks field visited.

Minor Nonconformities

The audit identified the following 2 minor nonconformities:

- **Indicator 15.3.2** – The Company has not yet fully investigated available programs for gathering information respecting climate change impacts on wildlife, wildlife habitats and conservation of biological diversity through international, regional or local programs in order to gain knowledge in these areas.
- **Indicator 16.2.1** – The Western Canada SIC (WCSIC), which the Company actively participates on, has recently revised its training policy and purchase wood information package in an attempt to meet the new requirements of the SFI 2010-2014 standard respecting the establishment of criteria and identification of delivery mechanisms for wood producers' training courses (which now must address the additional topics of invasive exotic animals, special sites, Forests with Exceptional Conservation Value (FECV) and awareness of emerging technologies). Review of the current WCSIC training policy found that it had been revised to address most of the new requirements, although these new requirements are not explicitly addressed in the policy. In addition, while some of these missing topics are covered under an updated (May 5, 2010) version of the WCSIC purchase wood information package, some gaps in coverage remain (e.g., invasive animals). In addition, the version of the purchase wood information package that is currently posted on the publicly-accessible area of the WCSIC website dates back to 2008, and thus does not address the incremental requirements of SFI 2010-2014.



Over 98% of the Company's blocks are planted within 1 year of final harvest.

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Opportunities for Improvement

The audit identified the following opportunity for improvement:

- **Objective 2** – On one completed harvest block located within a community watershed which was field reviewed, a skid trail uphill of a non-classified drainage (NCD) was not fully rehabilitated as was the common practice of the Company but, rather, was cross-ditched to reduce soil erosion (with the most proximate cross-ditch approximately 7 meters uphill of the NCD). Although there was no evidence of erosion leading into the NCD at the time of the audit and the NCD did not lead into any streams, an opportunity existed to improve upon the erosion control measures immediately above the NCD to further reduce the potential for sediment deposition into it.

Corrective Action Plans

The corrective action plans designed to address the root causes of the nonconformities identified during the audit have been developed by Atco Wood Products Ltd. and reviewed and approved by KPMG PRI. The next audit will include a follow-up assessment of these issues to confirm that the corrective action plans have been implemented.



The Company has established and implemented a number of effective operational controls which provide excellent levels of detail and operational guidance on key operational and resource issues associated with the blocks and activities.

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