Forest Management

2009 Annual audit

Report for:

Northshore Forest

In

North shore of Lake Huron, Ontario, Canada

Report Finalized: Nov 3, 2009
Audit Dates: June 23rd 2009
Audit Team: Nicolas Lecomte
          Dean Johnson

Certificate code(s): SW-FM/COC- 001544
Certificate issued: June 15, 2005

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         Nairn, Ontario, P0M 2L0
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1. INTRODUCTION

The purpose of this report is to document annual audit conformance of Northshore Forest Inc., hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood’s website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

2. AUDIT FINDINGS AND RESULTS

2.1. Audit conclusion

Based on Company’s conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:

- Certification requirements met, certificate maintenance recommended
  Upon acceptance of CAR(s) issued below

- Certification requirements not met:

  Additional comments: None

  Issues identified as controversial or hard to evaluate: None

2.2. Changes in the forest management of the FME and the associated effects on conformance with the standard.

None.

2.3. Stakeholder Comments

<table>
<thead>
<tr>
<th>Comment</th>
<th>SmartWood Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some stakeholders mentioned that working relationships with NFI is going well. Communication and implementation of forest</td>
<td>No response needed.</td>
</tr>
</tbody>
</table>
management and monitoring & assessment programs are good with no major issues to speak of.

A stakeholder reported that harvesting in some enhanced management areas take too long and would rather see the licensees expedite the harvest so that access could be restricted to the public sooner.

Numerous stakeholders stated that more protected areas should be established on the Northshore Forest and that the candidate protected areas proposed by NFI were very small.

SmartWood recognizes that due to the size of some of the licensees, it may be difficult to expedite the harvest and limit access sooner. Many of the licensees are small family run businesses. However, SmartWood issued Note 01/09 so that future audit teams probe this issue further.

SmartWood reviewed the gap analysis and the candidate protected areas proposed by NFI. The gap analysis showed that there were few gaps on the Northshore Forest. The 2 protected areas proposed were in fact small (1,473 ha) but an effort was made by NFI to choose sites that were adjacent to existing protected areas. Currently, nearly 15% of the Northshore Forest area will be protected. Furthermore Killarney Provincial Park (48,500 ha) is adjacent to the Northshore Forest. SmartWood interviewed an expert in protected areas who had participated in the identification of gaps and candidate protected areas and he was satisfied that NFI had done a good job. SmartWood concluded that this was sufficient to meet the requirements of the standard and that no corrective action was required.

### 2.4. Conformance with applicable corrective action requests

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in non-conformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

<table>
<thead>
<tr>
<th>Status Categories</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed</td>
<td>Operation has successfully met the CAR.</td>
</tr>
<tr>
<td>Open</td>
<td>Operation has either not met or has partially met the CAR.</td>
</tr>
<tr>
<td>Condition 6.3a</td>
<td>Reference to Standard: Criteria and indicator Criterion 6.3 National Boreal Standard (Version 3.2)</td>
</tr>
<tr>
<td>----------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Non-conformance</td>
<td>Major</td>
</tr>
<tr>
<td>Corrective Action Request:</td>
<td>In time for incorporation in the 2010 FMP, NFI shall ensure that targets are identified which address the full range of old growth for the forest units on the Northshore Forest.</td>
</tr>
</tbody>
</table>

**Timeline for conformance:**
By the end of Year 4 of certification

**Evidence to close CAR:**
In the 2010 FMP, targets were added to address the full range of old growth for the forest units on the Northshore Forest.

This was accomplished by introducing a ‘late old growth’ age class of 171 to 251+ years for the following forest units: PR1, SBLC, SFIR, HDUS, PWMIX and PWUS4. In the 2005 FMP, old growth was defined with only one age class for all forest units.

NFI’s objective with respect to old growth is to achieve levels of the Forest Units that will be greater than or equal to 75% of the Natural Benchmark SFMM run during each term of the FMP.

The auditors carefully looked at Table FMP-13 and saw that targets and desired levels were achieved in all terms for all forest units. The auditors also contacted the OMNR who confirmed that this new ‘old growth’ evaluation and projected results were valid.

The requirements of this CAR are met

**CAR Status:** CLOSED

**Follow-up Actions (if app.):**

<table>
<thead>
<tr>
<th>CAR 01/08</th>
<th>Reference to Standard: Criteria and indicator Criterion 6.4 National Boreal Standard (Version 3.2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-conformance</td>
<td>While a process to identify and protect representative samples of existing ecosystems within the landscape is underway, it is not complete nor has a peer review been conducted.</td>
</tr>
<tr>
<td>Corrective Action Request:</td>
<td>NFI shall submit the protected area network proposal for a peer review and then submit the</td>
</tr>
</tbody>
</table>
The requirements of this CAR are met.
<table>
<thead>
<tr>
<th>CAR 01/07</th>
<th>Reference to Standard: 6.1.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-conformance</td>
<td></td>
</tr>
<tr>
<td>Major</td>
<td>Minor X</td>
</tr>
<tr>
<td>During the field portion of this review, an issue arose regarding the inventory of non-timber values, specifically Moose Aquatic Feeding Areas (MAFAs) and raptor nests. The auditors found that there are significantly fewer records of these values for the Northshore Forest than for the surrounding forests. There is a particularly sharp demarcation in the density of MAFAs (with lower densities in the Northshore Forest) along the northeast, northern, and northwest borders of the Forest.</td>
<td></td>
</tr>
<tr>
<td>There are several possible reasons why the Northshore Forest would have lower densities of these values including: the values may have been updated more consistently removing outdated or erroneous record; the values data may have been lost, fewer values surveys may have been conducted in the forest, surveyors across the forests may be more or less discriminating in identifying (and removing) values, or there may really be fewer values in the Northshore Forest compared to the others. MNR staff offered hypotheses as to why there may be fewer values records, but no data was provided to substantiate the hypotheses.</td>
<td></td>
</tr>
<tr>
<td>Although Ontario’s forest management system identifies that the MNR is responsible for gathering wildlife information, the FSC standards make no such distinction and therefore we infer a requirement that the company play a role in resolving this situation. CAR 01/07 is issued.</td>
<td></td>
</tr>
<tr>
<td><strong>Corrective Action Request:</strong></td>
<td></td>
</tr>
<tr>
<td>The company shall have identified if there are gaps in the inventory of site-specific environmental/ecological values sensitive to impacts by forest operations on the Northshore Forest. If there are gaps in this inventory, the company shall implement measures to fill these gaps.</td>
<td></td>
</tr>
<tr>
<td><strong>Timeline for conformance:</strong> By the fourth annual audit</td>
<td></td>
</tr>
<tr>
<td><strong>Evidence to close CAR:</strong> To assess if NFI met the requirements of this CAR, the auditors contacted the OMNR local biologist. OMNR explained that they looked to see if any data from previous surveys was missing from the NRVIS database for the Northshore Forest. To do this they reviewed data from all of the MAFA/stick nest surveys carried out since 1998, when the original NRVIS data capture occurred: aerial MAFA/stick nest surveys were carried out in August 1998, July 2002, June and August 2003, and July 2007, while stick nest only surveys were carried out in July 2001 and March 2005. OMNR confirmed that all of the data from these flights was accounted for in NRVIS. OMNR then reviewed each of the old paper values maps (approx. 100 township maps at 1:20,000 scale) that were used prior to 1998 to see if any MAFAs had not been captured. These maps were the original source used for populating the data layers in NRVIS. For this exercise, OMNR looked only at MAFAs, since a lot of data cleaning had occurred in the stick</td>
<td></td>
</tr>
</tbody>
</table>
nest layers over the past 5 years to remove historic nest records where the nests were no longer present. OMNR found a few MAFAs in 7 townships that were present on the old values maps but not in NRVIS. A closer look showed that these had been weeded out during data checking before being entered into NRVIS because the values were no longer present (e.g. beaver dam lowered the water level of the pond, etc.).

Once OMNR was satisfied that there was no data missing from NRVIS, they looked to see why the number of identified wildlife values seemed low. OMNR stated that moose aquatic feeding areas are naturally scarce on the Northshore Forest and that spatial habitat supply modeling (OWHAM) shows that MAFAs generally are the limiting habitat component for moose on this forest. The auditors looked over this map and were satisfied that this was the case.

With respect to stick-nests, the focus of the OMNR stick nest surveys conducted in 2001 and 2005 was to verify that identified nesting sites were still present and recently active. As a result of these surveys, many former nesting sites where the nests were no longer present, or where the nests had obviously been abandoned for many years, were removed from NRVIS. OMNR stated that if adjacent forests have not focused on removing historic nesting sites, this could result in the observed pattern of more values appearing to be present on adjacent forests.

In the end, the main reason that there may be gaps in the inventory of site-specific environmental/ecological values sensitive to impacts by forest operations on the Northshore Forest is the 1948 Mississagi Fire which covers about 15% of the productive forest and the majority of the area with a low amount of values. Since this portion of the forest is still too young to be harvested, OMNR values' surveys have not been carried out in these areas as the OMNR district focuses on collecting values for areas of the forest that are expected to be part of planned forest operations. That being said, as these areas come on-line for harvesting (in the next 10-15 years), this portion of the forest will be scheduled for surveying.

The auditors are satisfied that the planned surveys of the forests within the Mississagi Fire will identify the apparent missing ecological values. Since these areas are not currently under threat from forest management, the auditors conclude that the requirements of this CAR are met.

| CAR Status:     | CLOSED |
| Follow-up Actions (if app.): |        |

2.5. **New corrective actions issued as a result of this audit**
Nonconformance

Major | Minor X
--- | ---
The standard (indicator 6.9.2) states that exotic plant species should not be used in forestry operations. However the standard also states that if seed mixes of native species are not available only non-invasive exotic species can be used. Currently NFI uses for bank stabilization what is known as the MNR Wildlife mixture which is composed of 6 exotic species. NFI has provided evidence to past audit teams that these species are not invasive. However, a source for native seed mixes has been identified and claims efficacy on the Northshore Forest. The standard requires that this be used, or shown to be ineffective.

Corrective Action Request:

NFI shall replace the MNR Wildlife seed Mixture with a seed mixture composed of only native species or, alternatively and in order to keep using the exotic seeds mixture, NFI shall provide evidence that the available native seed mixtures are not effective on the Northshore Forest.

Timeline for conformance: By the next audit
Evidence to close CAR: Pending
CAR Status: OPEN
Follow-up Actions (if app.):

Nonconformance

Major | Minor X
--- | ---
NFI has identified 19 HCVFs on the Northshore Forest. The HCVF assessment on the Northshore Forest has not used all the available information to identify the HCVFs that may currently occur on the Northshore Forest.

Corrective Action Request:

NFI shall review all the available information to determine if additional HCVFs are present in the forest, involving qualified specialists, directly affected people and Indigenous People where appropriate.

Timeline for conformance: By the next audit
Evidence to close CAR: Pending
CAR Status: OPEN
Follow-up Actions (if app.):

2.6. Notes for future audits

Note 01/09: Future audit teams should verify abandonment strategy for enhanced management areas to ensure requirements are met under 6.3.16
Note 02/09: Future audit teams should verify if the planned 55% and 37% increases in road density in the two Site regions of the Northshore forest are consistent with an access management plan that respects the requirements of indicator 6.3.16.

Note 03/09: Future audit teams should verify the level of sedimentation associated to water crossings.

Note 04/09: Future audit teams should verify that the newest version of the HCVF report is available to the public.

Note 05/09: Future audit teams should verify that NFI has given the public opportunities to participate in the process of determining management strategies to maintain the HCVs within all the identified HCVFs.

Note 06/09: Future audit teams should verify that the management strategies to maintain the HCVs within the identified HCVFs are found within the public summary of the 2010 FMP and that NFI has demonstrated that these strategies respect the precautionary principle.

Note 07/09: Future audit teams should verify that NFI has set-up and implemented a comprehensive monitoring program. This should include the monitoring of the maintenance of HCVs within all the identified HCVFs.

3. AUDIT PROCESS

3.1. Auditors and qualifications:

<table>
<thead>
<tr>
<th>Auditor Name</th>
<th>Qualifications:</th>
<th>Auditor role</th>
<th>Lead auditor, Ecology and Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nicolas Lecomte, PhD</td>
<td>Nicolas is the president of Valeur Nature (a company which specializes in scientific knowledge exchange and in ecotourism development). He is a forest ecologist who completed a doctorate in environmental sciences at the Université du Québec under the direction of Dr. Yves Bergeron. Beforehand, Nicolas had obtained an HBSc and MSc in Ecology and Evolution respectively from the University of Western Ontario and the Université de Montpellier II in France. His doctorate consisted in describing long-term species and stand dynamics in the prolonged absence of fire within the black spruce-feathermoss biome, as well as the effects of soil-borne fire severity on stand development. For the past 10 years, Nicolas has concentrated his efforts on sustainable forest management and has undertaken numerous mandates for diverse local, regional and national organisations, such as the Sustainable Forest Management Network. Furthermore, Nicolas is on the board of Northern Quebec’s Natural Resources Commission in addition to being vice-president of the Multi-resource Forest Committee of Villebois, Val Paradis and Beaucanton. Since 2007, Nicolas has been a team member or team leader on over 20 SmartWood assessments, annual audits and CAR verification audits in Ontario and Quebec.</td>
<td>Lead auditor, Ecology and Environment</td>
<td></td>
</tr>
<tr>
<td>Dean F Johnson, R.P.F</td>
<td>Dean is a professional with 30 years of diversified forest industry experience in woodlands, manufacturing, and senior level management. He has an extensive and well-balanced background in forest management and plant management in Canada and the United States. His career and proven track record has led to the</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
formation of D.F. Johnson & Associates, a consulting Company specializing in high quality professional services in both forest and mill operations.

3.2. Audit schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Location /Main sites</th>
<th>Principal Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 25 2009</td>
<td>Nairn Centre, Ontario</td>
<td>Initial meeting, interviews and field visit</td>
</tr>
<tr>
<td>June 26 2009</td>
<td>Nairn Centre, Ontario</td>
<td>Interviews, information gathering and closing meeting</td>
</tr>
<tr>
<td>August 26 2009</td>
<td>Draft report sent to NFI</td>
<td></td>
</tr>
</tbody>
</table>

Total number of person days used for the audit: 12.4
Number of auditors participating: 2. Number of days spent in preparation, on site and post site visit follow-up including stakeholder consultation: 8.

3.3. Sampling methodology:

Due to weak economic conditions, there were few ongoing operations at the time of the field audit. Therefore, only a few new areas of operation were available for field inspection. However, a field visit was organized which allowed the auditors to visit sites that had been harvested during the past year with different harvesting techniques (clear-cuts and partial cuts) and allowed the auditors to visit recently installed water crossings, slash pile management activities and access control measures.

Evidence pertaining to open CARs and Observations was provided to the audit team prior to and during the field audit. Interviews were held with NFI staff and stakeholders to verify the accuracy of information provided and to request clarification as required. Additional communication and requests for information occurred in the weeks following the field audit.

3.4. Stakeholder consultation process

<table>
<thead>
<tr>
<th>Stakeholder type (i.e. NGO, government, local inhabitant etc.)</th>
<th>Stakeholders notified (#)</th>
<th>Stakeholders consulted or providing input (#)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensee</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Government</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>NGO</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>First Nation</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

3.5. Changes to Certification Standards
| Forest stewardship standard used in audit:       | National Boreal Standard (Version 3.2) |
| Revisions to the standard since the last audit: | ☒ No changes to standard.              |
| Changes in standard:                           | None                                  |
| Implications for FME:                         | Not applicable - no new requirements  |