



**FSC Certification Report for the
2006 Annual Audit of:**

**THE SUDBURY FOREST
under the
Sustainable Forest Licence
of
VERMILION FOREST MANAGEMENT COMPANY LTD.**

Certificate Number: SCS-FM/COC-094N

**Under the
SCS Forest Conservation Program
(An FSC-Accredited Certification Program)**

**Date of Field Audit: September 21 & 22, 2006
Date of Report: January 28, 2007**

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1.0 GENERAL INFORMATION

1.1 Background Information

VERMILION FOREST MANAGEMENT COMPANY INC.
311 Harrison Drive
Sudbury, Ontario P3E 5E1
Contact: Peter Street; General Manager
Website: <http://sudburyforest.com>

1.2 General Background

This report covers the first annual surveillance audit of the Sudbury Forest under the Sustainable Forest Licence (SFL) of Vermilion Forest Management Company Ltd. (VFM) pursuant to the FSC (Forest Stewardship Council) and SCS (Scientific Certification Systems) guidelines for annual audits as well as the terms of the forest management certificate awarded by SCS in May 2006 (SCS-FM/COC-094N). All certificates issued by SCS under the aegis of the FSC require, at a maximum periodicity, annual audits to ascertain ongoing compliance with the requirements and standards of certification.

VFM is owned by a group of shareholders, the composition of which has changed significantly in recent months. At the time of the initial certification audit in 2005, there were 11 shareholders of VFM. This has been reduced to six shareholders as listed below.

- Gervais Forest Products Ltd., Falconbridge, Ontario
- H&R Chartrand Lumber Limited, Noelville, Ontario
- Lahaie Lumber Limited, Alban, Ontario
- Domtar Inc., Nairn Center and Espanola, Ontario, website: www.domtar.com
- N'Swakamok Forestry Corporation, Whitefish Lake First Nation, Ontario
- Grant Forest Products Inc., Englehart, Ontario,
website: <http://www.gfp-inc.com>

The SFL, under the Crown Forest Sustainability Act, is administered by the Ontario Ministry of Natural Resources (OMNR), Sudbury District Office. There are also several other companies that are not shareholders who harvest timber on crown land managed by VFM. They are allocated blocks on other partners' traditional operating areas. These companies are :

- Fryer Forest Products, Monetville
- Don Rastall
- Denis Lachance, in Mason and Scollard Twps.
- Dan Hebert, in Scollard and Falconer Twps.
- Lakeland Lodge, in Rathbun Twp.

1.3 Sudbury Forest and Management System

The Sudbury Forest is comprised of approximately 1.1 million ha of land managed under an SFL by VFM. About 83% of the area is land; most of the water area of the Forest is in Lake Wanapitei and in a portion of Georgian Bay (part of Lake Huron), which is included in the Forest. About 73% of the total area of the Sudbury Forest, is Crown land; 24% of the area is Patent land, with the remainder comprised of First Nation reserves and other federal lands. The Lands for Life and Living Legacy processes resulted in the creation of new parks and conservation reserves in central and northern Ontario. VFM's forest management activities apply to the provincial Crown portion (48%) of the Sudbury Forest.

The Sudbury Forest is located around the city of Sudbury, Ontario and falls within a transitional zone between what are known as the Great Lakes-St. Lawrence and Boreal forest regions of Ontario. Timber harvesting has been occurring on the Sudbury Forest since the early 1800's with many stands having been harvested two or three times. These factors have resulted in the forest exhibiting a wide range of forest conditions, both in tree species and forest health.

The Great Lakes-St. Lawrence forest region is a northern hardwood/coniferous forest type, commonly including such species as sugar maple (*Acer saccharum*), red maple (*Acer rubrum*), American beech (*Fagus grandifolia*), basswood (*Tilia americana*), white pine, (*Pinus strobus*), hemlock (*Tsuga canadensis*); mid-tolerant hardwoods such as yellow birch (*Betula alleghaniensis*) and red oak (*Quercus rubra*) and ash (*Fraxinus* spp.); and intolerant species such as black cherry (*Prunus serotina*) and red pine (*Pinus resinosa*). The predominant species found in the Boreal forest include conifers such as black spruce (*Picea mariana*), white spruce (*Picea glauca*), jack pine (*Pinus banksiana*), larch (*Larix laricina*), balsam fir (*Abies balsamea*) and eastern white cedar (*Thuja occidentalis*). The rest is comprised of shade-intolerant hardwoods, which include trembling aspen (*Populus tremuloides*) and white birch (*Betula papyrifera*). Because the Sudbury Forest is transitional, many species are at the northern or southern limits of their ranges.

In the tolerant hardwood forest type, the most common harvesting and renewal methods used are the selection and shelterwood silvicultural systems. In white pine and mixed red and white pine forest types the shelterwood silvicultural system is used. Clearcutting is used on the remainder of the Forest (e.g. intolerant hardwood and Boreal conifer).

About 16 mills receive wood from the Sudbury Forest, although most are not entirely dependent on the Forest for their timber supply. The wood supply traditionally provided to these mills from the Sudbury Forest varies from less than 100 m³/yr to more than 40,000 m³/yr. Over the last ten years, the average annual harvest area has been 4,682 ha, yielding approximately 176,000 m³/year of wood.

Within the Sudbury Forest, wildlife habitat is diverse and rich; fisheries are a significant resource and wetlands contribute to both fish and wildlife habitat and to recreational activities such as birding, hunting and fishing. Three main game species are found on the Forest, including moose (*Alces alces*), white-tailed deer (*Odocoileus virginianus*) and black bear (*Ursus*

americanus). In general, moose and white-tailed deer populations show a gradual increase on the unit while black bear populations appear stable. Habitat planning is conducted for these and other featured species during the forest management planning process.

The Forest is managed by VFM under an SFL to plan and carry out forest management and operations on the Crown land portion of the defined forest area. Company responsibilities include all aspects of forest management planning, forest operations, forest renewal activities, monitoring, reporting and self-compliance audits. OMNR staff conduct spot-checks of VFM's management activities to ensure that the company is in compliance with relevant provincial legislation and the body of regulations and guidelines applying to forest management on Crown lands in Ontario.

Since award of certification in 2005, there have been no significant changes to the Sudbury Forest land base. Some changes with respect to timber harvesting have been initiated through direction from the OMNR. These changes include implementation of the Natural Disturbance Pattern Emulation Guidelines (NDPEG) (OMNR, 2003) which require consideration of and emulation of disturbance patterns (primarily forest fire) including the retention of a minimum of 25 trees per ha as well as insular and peninsular patches after harvest.

See the 2005 Certification Evaluation Report Public Summary www.scscertified.com for a more detailed description of the VFM operation. For a more detailed description of the 2005 Certification Evaluation Report for the VFM operation see: http://www.scscertified.com/forestry/PDFS/forest_Vermilion_%20053006.pdf

1.4 Environmental and Socioeconomic Context

Since the 2006 Certification Audit was completed shortly after the approval of the 2005-2010 Sudbury Forest FMP, items related to forest management on the Sudbury Forest will remain consistent until the expiration of that FMP (March 31, 2010).

At the time of the certification audit in 2005, VFM had 11 shareholders. At the time of this surveillance audit, the number of shareholders had been reduced to six. Five of these six shareholders were part VFM in 2005 and one party, Grant Forest Products, was a new shareholder of VFM.

The wood using industries in and around the Sudbury Forest continued to change between the time of the certification audit and this surveillance audit. Domtar's Espanola pulp and paper mill lowered production resulting in 115 job losses. The Domtar sawmill in Nairn Centre stopped operating leaving 140 workers without jobs for an indefinite period of time. The Isidore Roy sawmill in Hagar was purchased and shutdown by Domtar resulting in 40 job losses.

In July 2006, severe weather events resulted in large areas of blowdown in the Sudbury Forest. The majority of forest damage occurred in white pine uniform shelterwood stands. Several of the field stops on this annual audit were in these areas. The Sudbury District Office of the MNR has expedited salvage harvests in these areas, permitting salvage to occur without undue delays.

Sawmill prices for white pine dropped immediately after news of the damage. Further price reductions are likely leaving adequate salvage in jeopardy.

See the 2005 Certification Evaluation Report for a detailed description of the environmental and Socio-economic context.

1.5 Products Produced

Merchantable conifer species such as white pine, red pine, jack pine, and spruce are grown for quality sawlogs, plywood and pulpwood. Fibre from lower quality trees are sold for chip material to be used for OSB, pulp, or fuelwood. Hardwoods such as poplar, maple and white birch are also grown for sawlogs, veneer, chips, and fuelwood.

Although commitments remain, mill shutdowns have significantly changed supply requirements. Supply arrangements as described in the 2005-2010 Sudbury Forest FMP are now effectively obsolete. Until new facilities are established, the allowable harvest level on the Sudbury Forest will be unachievable. A detailed description of the commitments is found in the 2005 Certification Evaluation Report.

Standard Forest Units	Silviculture System	% of Forest
Tolerant Hardwood Selection	Selection	15
Mixedwood	Clearcut	14
White Birch, Poplar Mix	Clearcut`	12
Spruce/Fir	Clearcut	9
White Pine Uniform Shelterwood	Uniform Shelterwood 3C	11
Tolerant Hardwood Uniform Shelterwood	Uniform Shelterwood 2C	7
Poplar	Clearcut	8
White Pine Seed Tree	Clearcut (Seedtree)	4
Mixed Conifer Lowland	Clearcut	5
Jack Pine Upland Black Spruce Mix	Clearcut	3
Lowland Mixedwood	Uniform Shelterwood 2C	4
Yellow Birch	Uniform Shelterwood 2C	2
Hemlock	Uniform Shelterwood 3C	2
Red Pine	Clearcut	2
Jack Pine	Clearcut	2

1.6 Chain of Custody Certification

With respect to VFM, the chain-of-custody focus is on the “stump to forest gate or mill gate.” That is, chain-of-custody begins with the severing of a standing tree to produce a merchantable log and ends with that log(s) leaving VFM custody at the mill gate.

The 2005 audit investigated the manner by which VFM could maintain chain-of-custody over wood fibre to the “forest gate” to assure that only logs from the “defined (certified) forest area” would carry the certified status. At that time the audit team determined that VFM and all the shareholders are subject to an OMNR bill of lading system used on all Crown lands in Ontario. No logs are allowed to be moved from the forest without the proper bill of lading. The four copies of the ticket for each load are held by the trucking contractor, logging contractor, mill and MNR. With such a system, the possible source of contamination with uncertified logs is eliminated, at least until the logs reach the receiving yard of a mill.

It was concluded on review of the chain of custody procedure that the chain of custody certification awarded to VFM/MNR to cover logs that leave “forest gate” to “sawmill log yard gate” should be retained.

2.0 ANNUAL AUDIT ASSESSMENT PROCESS

Pursuant to FSC and SCS guidelines, annual/surveillance audits are not intended to comprehensively examine the full scope of the certified forest operations, as the cost of a full-scope audit would be prohibitive and it is not mandated by FSC audit protocols. Rather, annual audits are comprised of three main components:

- A focused assessment of the status of any outstanding conditions or corrective action requests;
- Follow-up inquiry into any issues that may have arisen since the award of certification or prior audit; and,
- As necessary given the breadth of coverage associated with the first two components, an additional focus on selected topics or issues, the selection of which is not known to the certificate holder prior to the audit.

In this case, there were six CARs and eight recommendations issued as part of the initial award of certification in 2005. All of these CARs and Recommendations were investigated as part of this annual audit. VFM’s preparation and provision of supporting data to address the CARs and Recommendations was exceptional.

2.1 Assessment Personnel

For this annual audit, the team included Peter Higgelke and Dr. Walter R. Mark. The audit was lead by Peter Higgelke.

Peter Higgelke: Consulting Forester, Managing Partner of KBM Forestry Consultants Inc. (Ontario). As a principal in KBM, Mr. Higgelke specializes in forest auditing, forest management planning, forest inventory, wildlife habitat supply analysis modelling, business plan preparation, timber harvesting, and forest renewal prescriptions. Peter is a registered professional forester in the province of Ontario. He has advised First Nations on forest

management, forestry negotiations and economic development. In the past he lectured at Lakehead University on integrated forest resources management and GIS applications in forestry. Peter was a member of the SCS team that performed the original FSC certification audit in 2005.

Dr. Walter R. Mark: Dr. Mark is a professor of forestry at California Polytechnic State University, San Luis Obispo and former Director of Swanton Pacific Ranch, the University's school forest. Dr. Mark's specialty is forest health. Dr. Mark is a consultant for Scientific Certification Systems. Dr. Mark is a registered professional forester in California (RPF No. 1250) with 35 years of forestry experience in the public and higher education sectors. He acted as lead for the 2005 Sudbury annual audit. He acted as lead for the 2004 and 2005 Nipissing Forest Annual Audits. He has served as audit team leader for several certification, recertification and annual audits over the past three years.

2.2 Assessment Dates

On September 20-22, an SCS audit team (Higgelke and Mark) conducted the annual audit of the Sudbury Forest under the Sustainable Forest Licence of Vermilion Forest Management Company Ltd, including on-site inspections of field operations as well as extensive interviews with VFM management, field personnel, and consultants.

2.3 Assessment Process

The SCS annual audit field evaluation commenced in the afternoon of September 20 with a meeting at the VFM office to review the field itinerary and briefly discuss each field stop. The field audit concluded in the afternoon of September 22, 2006 with a meeting at the VFM office with Peter Street, Ron Luopa, Doug Maki, and Peter Higgelke and Walter Mark. Activities associated with the evaluation were as follows:

September 20 —The annual audit began at the office of Vermilion Forest Management Company Inc. with a brief discussion about the direction of this year's audit with respect to required corrective actions and recommendations, and then an overview of the field stops. VFM staff included in the meeting was Peter Street, Ron Luopa, Doug Maki and Chuck Huisman.

September 21

Stop #1 was located at Block 58 of the 2005-2010 FMP. The block was part of Domtar's allocation and was harvested by Piquette, a contractor Domtar brought in within the last year. Domtar had been purchasing some of the small licences and had needed contractors. The block was a cut and skid salvage harvest after the blowdown events of July (having previously been harvested as a uniform shelterwood in 2004). Road construction was contracted to another party by Piquette. The block was planted

with white pine and red pine in 2004 but the plants were behind schedule. Presently, the block appears to be regenerating to a mixture of white pine with a substantial component of red pine and balsam fir. A question is how will the red pine be captured in the new forest. In addition balsam fir regeneration was evident. VFM will consider spraying and planting to red pine. Roads are already built.

Stop #2 was not visited as blown down trees remained across the road preventing access. The block was an example of a slash burn on areas harvested primarily for Domtar by Gervais. There are approximately 1,100 piles to burn in 2006. Approximately 70% of the piles scheduled for 2005 were actually ignited and these were located primarily in the northern parts of the SFL area.

Stop #3 was at Block 67, an area cut by Fryer as salvage. This block demonstrated a combination of White Pine Seed Tree and Universal shelterwood silvicultural techniques with approximately 10% removal mainly in patches considered to have been damaged permanently. MNR wanted all leaning trees to be marked by the SFL holder so a compliance inspector could assess. The block was to be planted but the stock shipped had small brown buds. The trees were not planted and have been over wintered pending lab testing in the spring. If they are viable they will be outplanted in the spring with scheduled 2007 trees planted in the fall (or the following year). The block was effectively treated with an airblast sprayer. No skidding damage was evident.

Stop #4 was at Block 64 which was a continuation of an older block 64 but with a new entrance off Killarney Highway. The exit off the highway into the block was built as a dog leg in order to mask the view of the harvest area from the public. This is a good practice and was well executed in this instance. The contractor on the block was Buddy Lowery.

Oil leaks were observed from the slasher/loader. Workers were also observed working without proper PPE (lacking high visibility-vis vests). White pine was seen in wood going to be utilized as pulp. The block had been opened up in the anticipation of natural regeneration. The rockiness of the site limits artificial regeneration possibilities.

The block was still being harvested at the time of the site visit. Forest units were clear cut with the licensee responsible for the marking of boundary lines. VFM audits the boundary marking. Site damage was much improved from the previous years harvest activities.

A discussion with Mr. Lowery concerning the current economic climate in the forest led him to compare the present to that of 20 years previously. Mr. Lowery pointedly argued that high costs and low returns were causing many operators to abandon the forestry sector in search of better opportunities.

Stop #5 was a visit to some Hemlock Looper damage found within the Killarney Provincial Park expansion area. Since Hemlock sites are HCV's within the adjacent Sudbury Forest area, some concern over the sustainability of hemlock sites was discussed. VFM needs to institute a monitoring program on the SFL.

Stop #6 was located at Block 68 part of Grant's licence area. This block was an example of commercial thinning. Some questions remain related to this block since the twinning of Highway 69 might result in it being incorporated into the new highway corridor.

The area was heavily stocked and was thinned by 26-40 m²/ha. The current thinning was the second thinning of the plantation (the first being a row thinning). The plantation was initially planted by prisoners from the now closed Burwash Prison. Careful logging was performed by Fryer using a combination of feller buncher and grapple skidder and cut and skid. Little damage was evident to the residual standing trees.

A number of AOCs existed in the block including a broad-winged hawk nest, a snowmobile trail and a riparian area. All were treated properly as was evidenced by compliance reports

September 22 The first part of the morning was spent selecting a site for examination for the remainder of the morning. Once the site was selected, the field group spent the remainder of the morning in the field viewing the site that was of recent harvesting activities. The field group for the day consisted of the Peter Street and Ron Luopa of VFM, Jesse Leverre, Senior Forestry Technician of the Sudbury District MNR, and the audit team, Peter Higgelke and Walter Mark;

Stop #7 a visit to Block 28 which was part of Domtar's licence. Parts of this block had been harvested by a number of contractors but Domtar is now using only George Piquette as a contractor. The area was interspersed with a number of pieces of private land. Ron Luopa had sent out letters to the private landowners to engage consultation. Some were contacted and others were non-responsive. Of the individuals that had been contacted, most were agreeable to VFM's plans.

Field examination of the block revealed a number of problems including the following:

- a) Water crossing installation contravened Ontario's guidelines for such installations in the following ways: no stable angle of repose was developed on the road banks at the water crossing; rip-rap material was not used on the banks; the length of culvert was too short for the required road width; grubbing had occurred within the riparian AOC; and, no drainages were creating to divert run-off from the road into the forest.
- b) Immediately beyond the aforementioned water crossing, road construction did not immediately exit the AOC. Road construction remained inside the AOC for some distance rather than exit and remain outside of the AOC as required. AOC

markings were highly visible where they had not been removed with the timber harvest showing that the AOC had been well marked.

- c) Within the harvest block, the NDPEG mandated leave trees were not evenly distributed as required. While the operator left the required 25 trees per hectare, they were left in a clump.
- d) The road passed through the harvest area and again crossed through a clearly marked licence block boundary
- e) The second water crossing was located within a floodplain area. Here an excavator traversed the floodplain to access the stream for water crossing installation. Within the floodplain, excavation occurred to provide material for the eventual roadbed. Further, the stream channel was excavated to provide for culvert installation. The stream should have been crossed using a bridge rather than an in-stream installation.

In the opinion of the auditors, the problems witnessed at this field stop are related to insufficient on-site supervision.

The scope of the 2006 surveillance audit included: document review, field auditors spending time in the field reviewing site-specific results of planning and forestry activities, interviewing management and operations personnel and, as appropriate, interacting with outside stakeholders.

2.4 Guidelines/Standards Employed

For this annual audit, the SCS auditor team evaluated the extent of conformance with the FSC Standards for Well-Managed Forests in the GLSL Forests of Ontario and Quebec, May 2004, Draft 1.0. The 2004 draft standard is currently under review and is available in the revised form as a September 2006 Consultation Draft on the FSC Canada website (www.fscanda.org). As the consultation draft was not yet adopted at the time of this annual audit, the 2004 draft standard remained valid.

3.0 STATUS OF CORRECTIVE ACTION REQUESTS AND RECOMMENDATIONS

This results section is divided in two sections: 3.1 details the status of conditions that were issued at the time of award of certifications; and, 3.2 details new observations, CARS, and recommendations.

A brief summary of the 2005 certification annual is as follows:

- 1) Six CARs were included in the 2005 certification audit.
- 2) Eight Recommendations were issued in the 2005 certification audit.

3.1 Status of Corrective Action Requests and Recommendations

The conditions and recommendations issued at the time the 2005 certification audit are listed below, along with the auditor team's assessment of VFM's response thereto, and the disposition of these conditions and recommendations as a result of the certificate holder's responses. Note, award of certification and delivery of final report did not occur until May 2006. Thus, there was limited time allowed to meet those CARs due at the 2006 surveillance audit. Never the less, VFM made substantial progress completing the majority of the work on outstanding CARs. In all circumstances, extensions to the CAR timeframes was warranted because of the short time between delivery of the final report and the 1st audit, and because of the substantial progress made by VFM.

CAR 2005.1:
<i>Criterion 4.5.2 VFM should implement start-up training for operators to stress the reduction of residual stand damage and increase on-site supervision and monitoring, especially when new contractors or operators are utilized.</i>
Deadline: This start-up training should be in place by the time of the first annual audit in 2006.
Company Action/Auditor Observation:
Domtar's new contractors all attended a spring compliance training session. Chuck Huisman and Ron Luopa have also met with all the contractors. (Evidence Binder 1.1.a & 1.1.b)
Status at September 22, 2006:
This condition is closed since VFM has completed its obligations. Since evidence of field problems were found during the field inspections in this audit a new condition is provided (see 2006.1).

CAR 2005.2:
<i>VFM must continue to pursue the alternative for the gap analysis.</i>
<i>Deadline: Progress on this CAR will be a concern of the annual audit in 2006. As long as progress is made, the CAR will be extended and remain open.</i>
Company Action/Auditor Observation:
VFM has continued to pursue completion of the gap analysis by the province. Evidence included correspondence from province indicating commitment to complete the gap analysis. As well, VFM met with the FSC Committee and provided information on concerns with draft standards. New draft Great Lakes St. Lawrence standards have incorporated concerns of various parties including certificate holders which included VFM (Evidence Binder 6.2.c).
Status at September 22, 2006:
This condition is continued

CAR 2005.3:
<i>VFM needs to develop written SOP's to comply with all of the criteria in 6.5.1.</i>
<i>Deadline: These SOP's must be developed and implemented within one year to be audited at the first annual audit in 2006.</i>

Company Action/Auditor Observation:
An extensive suite of SOPs has been developed and documented as part of VFMs' <i>"Manual of Operating Instructions for Forestry Undertakings in the Great Lakes, St. Lawrence Forest Region"</i> . At the time of this annual audit, the MNR was developing a new set of standards that might require changes to VFM's operating procedures. A new site guide is being developed by the MNR with assistance from forest industry personnel. Though slash management has not yet been addressed in VFM's operating procedures, the 2005-2006 AWS included <i>"Prescribed Burn Plan for Slash Pile Burning"</i> and a monitoring plan was included in the 2005-2010 FMP Monitoring and Assessment chapter. The criteria described in 6.5.1 have all been addressed in VFM's manual.
Status at September 22, 2006:
This condition remains open since VFM's operating procedures contain no reference to a slash management procedure and this should be completed. It is recognized that slash management is included in the 2005-2006 AWS. Future audits should also ensure that VFM operating procedures reflect both the criteria of the applicable FSC Standard as well as MNR's new site guide. Because significant progress was made on SOPs, a one year extension is warranted for this CAR. CAR now due at the time of the 2007 surveillance audit.

CAR 2005.4:
<i>Existing SOPs need to be documented and a monitoring plan for each of the SOPs needs to be developed at the same time. As new SOPs are developed, monitoring must be a standard component of the SOP.</i> <i>Deadline: The monitoring plans for all SOP's, that is those existing and those to-be-developed, must be developed and implemented within one year, to be audited at the first annual audit in 2006.</i>
Company Action/Auditor Observation:
This was identified at the Spring Compliance Meeting. The meeting also covered compliance issues. A copy of Ron's presentation from the SCM was received [Evidence Binder Annual Compliance Plan 1.1.b (SCM)]. Further, the 2005-2006 AWS included <i>"Prescribed Burn Plan for Slash Pile Burning"</i> . A monitoring plan was included in the 2005-2010 FMP Monitoring and Assessment chapter. Monitoring and assessment is also reported in the Annual Reports. Ontario's compliance monitoring program includes comprehensive monitoring for relevant issues.
Status at September 22, 2006:
This condition is closed but a recommendation is provided in this report to deal with the inclusion of a specific monitoring component for relevant operating procedures.

CAR 2005.5:
<i>VFM will obtain through a transparent, publicized and open consultative process input into the proposed HCV's consistent with Indicator 9.1.3. The modified proposal for HCV's will include specific management measures and monitoring to assure the continuance and/or enhancement of the conservation attributes and locations confirmed by scientists and stakeholders.</i> <i>Deadline: The modified HCV proposal must be complete within a period of one year, to be</i>

<i>audited at the first annual audit in 2006.</i>
Company Action/Auditor Observation:
The final draft of the “ <i>High Conservation Values in the Sudbury Forest</i> ” was provided to the auditors on Monday, September 25 in North Bay. Various groups were invited to comment on the report and, according to the report, “...new HCVs and new management approaches will be considered at any time.” Evidence of consultation and feedback was also provided.
Status at September 22, 2006:
This condition remains open as the report “ <i>High Conservation Values in the Sudbury Forest</i> ” has not yet been finalized. Significant effort has been completed but monitoring conditions remain outstanding. A one year extension is warranted. CAR is due at the 2007 surveillance audit.

Condition CAR.2005.6:
<i>Upon finalization of the interim HCV assessment and the implementation of conservation management measures more detailed HC VF monitoring SOPs will be developed. Deadline: After the modified HCV proposal is completed, monitoring SOP’s must be developed and implemented within a period of one year to be audited at the first annual audit in 2006 with a deadline of the annual audit in 2007.</i>
Company Action/Auditor Observation:
Not yet needed as draft HCV report only received at the time of the 2006 Annual Audit.
Status at September 22, 2006:
This condition remains open. Due at 2007 surveillance audit

The recommendations issued at the time the 2005 certification audit are listed below, along with the audit team’s assessment of VFM’s response thereto, and the disposition of the recommendations as a result of the certificate holder’s responses.

Recommendation 2005.1
<i>While VFM does not have supervision authority over contractors working for shareholders, VFM does need to be more involved at an early stage in compliance inspection, especially with new contractors or contractors with a track record of having compliance problems.</i>
Company Action/Auditor Observation:
Stop #7 illustrated that the concern brought forth with this recommendation had not yet been addressed. A number of compliance breaches were witnessed as discussed in the Stop #7 description.
Status at September 22, 2006:
This recommendation is replaced with CAR 2006.2 written to address concerns related to VFM involvement new contractors and contractors with a track record of having compliance problems.

Recommendation 2005.2
<i>VMF is advised of FSC requirements for compliance with Criteria 1.6 and should consider measures to demonstrate a long-term commitment to FSC through participation in FSC Canada activities and auditable measures of adherence, such as on company website and its company</i>

<i>letterhead.</i>
Company Action/Auditor Observation:
VFM is actively participating in FSC Canada and has indicated so on its website
Status at September 22, 2006
This recommendation has been addressed.
Recommendation 2005.3
<i>VFM needs to develop SOP's for whole tree yarding to prevent and properly dispose of large amounts of slash that are deposited at the landing.</i>
Company Action/Auditor Observation:
2005-2006 AWS included "Prescribed Burn Plan for Slash Pile Burning" which specifically discusses slash management on areas that have been harvested using the full tree system..
Status at September 22, 2006
This recommendation remains to develop an SOP from the "Prescribed Burn Plan for Slash Pile Burning".
Recommendation 2005.4
<i>VFM should look at the old growth component of the boreal forest and decide on a strategy to manage for old growth components in the boreal component. There was considerable public comment received about this.</i>
Company Action/Auditor Observation:
The 2005-2010 FMP includes Appendix VIII "Old Growth Strategy for the Sudbury Forest". This strategy includes boreal forest old growth components. A new Landscape Guide is in the final stages of development and will include boreal old growth as one of many components. Kandyd Szuba of Domtar (a shareholder in VFM) is participating in the development of the Landscape Guide. Further, VFM has agreed to use the Sudbury Forest as a test case for the Landscape Guide.
Status at September 22, 2006
This recommendation has been addressed.
Recommendation 2005.5
VFM needs to work with MNR to assure that planned road closures are effective.
Company Action/Auditor Observation:
MNR is in the process of amending the Crown Land Use Atlas to permit road closures before roads are actually constructed. The strategy is to amend the 2005-2010 FMP once that amendment has been approved. During the planning process for the current FMP, road closures were presented at three open houses. During that time, it was brought up that the current Land Use Plan did not permit road closures of this kind. The new strategy should alleviate road closure problems once the Crown Land Use Atlas is amended.
Status at September 22, 2006
This recommendation remains until a ruling on the Crown Land Use Atlas is achieved. Should the amendment not be approved, the recommendation will require attention.

Recommendation 2005.6
<i>VFM should continue to seek funds to assist in the rehabilitation of the forest areas damaged by the smelter flume in the past.</i>
Company Action/Auditor Observation:
Evidence was provided to show that VFM had followed through on this recommendation.
Status at September 22, 2006
This recommendation remains as substantial area remains appropriate for rehabilitation.

Recommendation 2005.7
<i>VFM should undertake transparent outside feedback to the location and conservation attributes of proposed HCV's as well as areas not proposed for HCV status. The results of the reviews will be addressed and the HCV plan modified as appropriate.</i>
Company Action/Auditor Observation:
The process to develop HCVs for the Sudbury Forest included submissions of draft HCV reports to various agencies for comment. For the Sudbury Forest, only the World Wildlife Fund provided feedback. Evidence demonstrating transparent feedback was provided.
Status at September 22, 2006
This recommendation has been addressed.

Recommendation 2005.8
<i>Annual Work Schedules should include pre-operations orientation and post-operations monitoring provisions for blocks with HCV</i>
Company Action/Auditor Observation:
In many cases, HCVs were identified that had coincidentally been treated in the FMP as “values” (i.e. moose aquatic feeding areas) and afforded protection treatments (area of concern) related to maintaining the ecological integrity of the value. AOCs are shown on maps for pre-operations orientation and are included in post-operations monitoring.
Status at September 22, 2006
Problems were witnessed during the field portion of this audit, with AOC incursions. This recommendation has been elevated to a CAR to reflect the serious nature of the problem. See CAR 2006.3

Recommendation 2005.9
<i>VFM is advised that during the course of the 2006 annual inspection FSC Criterion 9.4.3 will be the reviewed by the audit team to determine how the monitoring data from 9.4.2 has been utilized to adjust the management measures.</i>
Company Action/Auditor Observation:
At the time of the 2006 Annual Surveillance Audit the HCV Report for the Sudbury Forest had just been completed. Therefore, this recommendation will require a further year for VFM to perform the required work.

3.2 Additional Observations, CARs and Recommendations

The Trend Analysis Report for the Sudbury Forest indicated overall utilization of harvest volumes on the Forest continue to be low. However, actual harvest levels of coniferous species are near planned levels leaving hardwood utilization levels exceedingly low. Unless new markets for these species are found, utilization levels of low grade hardwoods will not change.

The high utilization levels of white and red pine are cause for concern in light of the blowdown events of the summer of 2006. Salvage operations on the Sudbury Forest were engaged swiftly to capture as much of this volume as possible. The blowdown event in combination with the high utilization of these species in the past are cause for concern, particularly since the forest resource inventory is almost 30 years old (1989). Until the extent of the blowdown is known and volumes for white and red pine stands are certain, concerns about sustainable harvest levels of these species will remain.

A number of mills in the area have reduced their production levels or shut down completely. The economic contribution of forestry has diminished over the past few years, leaving questions about the economic contribution of the Sudbury Forest to the region.

VFM has undergone a staffing change since the last annual audit where Mark Lockhart, R.P.F. was hired as the Planning Forester.

VFM is owned by a group of shareholders, the composition of which has changed significantly in recent months. At the time of the initial certification audit in 2005, there were 11 shareholders of VFM. This has been reduced to six shareholders. The reduction in the number of shareholders is a direct result of the poor economic conditions that are affecting the forest industry across the Province and for that matter across the country. Those shareholders that left, elected to voluntarily sell their harvesting rights to Domtar and Grant Forest Products (in the case of Fryer Forest Products Ltd.)

Additional CARs

Based upon this audit, the SCS team concludes that the issuance of three new Corrective Action Request (CAR) is warranted.

Background/Justification:

The SCS Team noted that the age of the forest resource inventory (FRI) was almost 30 years old. Although the FRI has regularly been undated with depletions, its capability of accurately reflecting changes in the forest since the time of inventory (1989) are suspect. The audit team witnessed fatal damage to hemlock stands in neighbouring Killarney Provincial Park. Discussions at that site clearly indicated that similar damage is likely to extend into the Sudbury Forest. Also, the blowdown event of July 2006, will require accurate reflection in the planning inventory for the 2010 FMP to enable accurate allowable harvest levels to be calculated, particularly for white pine.

CAR: 2006.1	VFM should develop a strategy to ensure that the planning inventory for the 2010-2020 FMP accurately reflects changes to the forest from natural disturbances, both in area and volume.
Reference	FSC Criterion 5.6 as well as 6.1.2 and 6.1.3.
Deadline	Annual audit of 2007.

Background/Justification: The SCS Team noted a suite of operational problems at one of the field stops (see notes for stop #7) from improperly installed water crossings to a riparian AOC infraction. The area was being harvested by a contractor for Domtar and was relatively new to the Sudbury Forest.	
CAR: 2006.2	VFM should prepare and implement a plan for its staff to perform on-site training of operators that are new to the Sudbury Forest or operators that have a poor compliance record and ensure that compliance monitoring of these operators is completed within two weeks of starting to operate in a new block. The plan should include training of supervisors and equipment operators. The plan should include VFM documenting these training and compliance visits.
Reference	FSC Criterion 6.5.
Deadline	Annual audit of 2007.

Background/Justification: In many cases, HCVs were identified that had coincidentally been treated in the FMP as “values” (i.e. moose aquatic feeding areas) and afforded protection treatments (area of concern) related to maintaining the ecological integrity of the value. AOCs are shown on maps for pre-operations orientation and are included in post-operations monitoring. Problems were witnessed during the field portion of this audit, with AOC incursions. Action on this issue had previously been suggested under Recommendation 2005.8. Following the 2006 audit, this recommendation has been elevated to a CAR.	
CAR: 2006.3	Annual Work Schedules must include pre-operations orientation and post-operations monitoring provisions for blocks with HCV
Reference	FSC Criterion 9.3
Deadline	Annual audit of 2007.

Additional Recommendations

Based upon this audit, the SCS team concludes that no new Recommendation are necessary:

3.3 General Conclusion of the Annual Audit

Based upon information gathered through site visits, interviews, and document reviews, the SCS audit team concludes that VFM’s management of the Crown land forests on the Sudbury Forest continues to be in overall compliance with the FSC Principles and Criteria. Although aspects of VFM’s management program remain deficient relative to the standard of certification, the SCS

audit team has concluded from this annual audit that VFM's management is in general compliance with FSC Principles 1 through 9.

As such, continuation of the forest management certificate is warranted, subject to ongoing progress in closing out the conditions and CARs, and subject to subsequent annual audits.

3.4 Evaluation of Conformance

SCS auditors assessed Criteria 1.1, 1.6, 5.3, 6.2, 6.3, 4.5, 6.4, 6.5, 6.10, 9.1, 9.2, 9.3, 9.4 as there were outstanding CARs and or Recommendations on these topics. See the above discussion under section 3.1 of this report for findings relative to these Criteria. Additionally, section 2.3 contains findings of the field portion of this audit presented in narrative form.