



## Sierra Pacific Industries Washington and California Woodland Operations 2021 SFI Surveillance Audit

July 27, 2021

Between February and July, 2021, an audit team from KPMG Performance Registrar Inc. (PRI) carried out a surveillance audit of Sierra Pacific Industries (SPI) forestry and procurement operations under the Sustainable Forestry Initiative® (SFI) Program. This Summary Report provides an overview of the process and KPMG's findings.

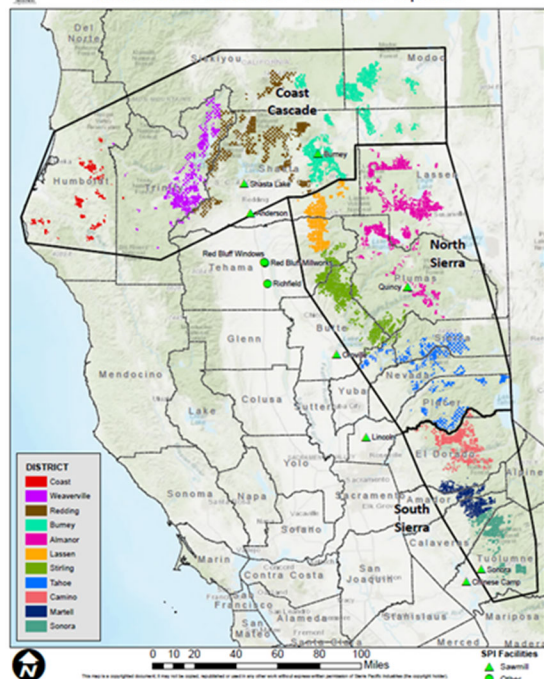
### Description of Sierra Pacific Industries Operations

SPI owns private forest land in and carries out fiber sourcing in both California and Washington State.

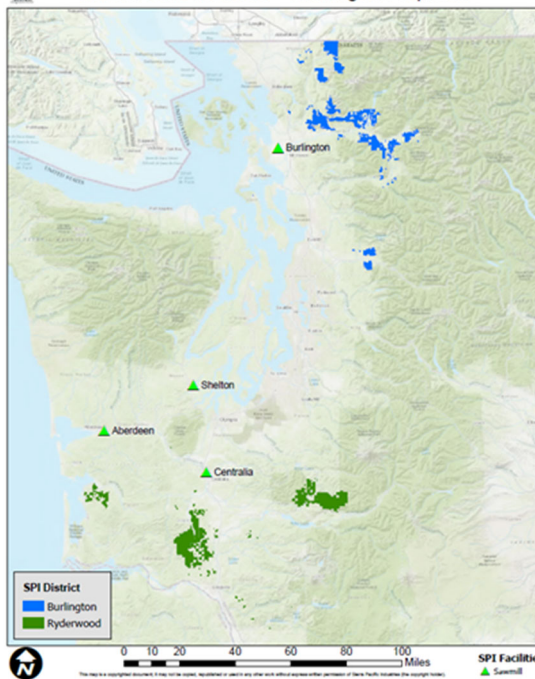
#### Sierra Pacific Industries

California and Washington Timberlands and Manufacturing Facilities

Sierra Pacific Industries - California Properties



Sierra Pacific Industries - Washington Properties



### California

#### 1. Forest Management Operations:

SPI is the largest private forest land owner in California, with operations currently encompassing over 1.821 million acres of timberland throughout northern California. The land ownership pattern consists of both large contiguous tracts of land and a significant number of smaller non-contiguous tracts. The private timberland operations are managed by the Company through eleven separate field operations. Planning and research staff are located at the main office in Anderson, California.

SPI's land holdings in California reside in the Klamath Mountains, Southern Cascades and Sierra Nevada ecological subregions. Dominant forest types under SPI management in these subregions include Ponderosa Pine, Douglas-fir, Klamath and Sierra Mixed Conifer (Ponderosa Pine, Sugar Pine, White Fir, Douglas Fir, Incense Cedar), Mixed Hardwood-Conifer, Black Oak, Red Fir, White Fir and Jeffrey Pine. SPI carries out even aged, uneven aged, shelterwood and seed tree silviculture regeneration systems, along with pre-commercial thinning and commercial thinning. All clear-cut stands are planted with trees grown from the corresponding specific seed zones stratified by 500 foot elevation bands.

Three Option A demonstrations of Maximum Sustained Production (MSP) have been prepared and submitted for SPI's California operations—one each for the northern, southern and coastal State Forest Districts. Each Option A establishes long-term goals and objectives for key timber and non-timber values consistent with the requirements of the California Forest Practices Rules and SPI's voluntary practices and commitments. They also establish the associated forest management approaches, standing inventory and growth and yield modeling scenarios, assumptions and timber production constraints to address these goals and objectives, as well as to model growth, harvest and long term sustained yield levels over a 100 year strategic planning horizon.

In order to ensure that the harvest is sustainable over time, existing annual harvest levels have been established at levels well below the long term sustained yield. SPI's tracked actual harvest level over the 1999—2018 period averaged well below the calculated allowed annual harvest level for its California operations.

Short-term (7-year) Timber Harvesting Plans (THPs) are established to guide specific harvesting, road development and silviculture scheduling/strategies on a sub-basin or larger basis. THPs incorporate specific operational approaches for addressing MSP goals and objectives, Forest Practices Rules and Company practices and commitments for identifying and protecting timber and non-timber resource values (wildlife and habitat features, aesthetic, recreation, range/forage, riparian, watersheds, fisheries, etc.).

### 2. Fiber Sourcing Operations:

SPI fiber sourcing operations in California are carried out by procurement foresters associated with sawmills located in Anderson (where there is also a pole plant), Burney, Shasta Lake, Oroville, Quincy, Chinese Camp, Sonora and Lincoln. A substantial proportion of the Company's California mills' fiber supply is obtained through SPI's procurement program.

Logs are received at the sawmills from a number of sources, including SPI's own fee lands, stumpage sales on private or federal land and direct log purchases from land managed or owned by Timber Investment Management Organizations, Real Estate Investment Trusts, family forest owners, tribal lands, private landowners and other US public lands. The majority of the incoming logs originate from California, with very small proportions of the total supply coming from Oregon and Nevada.

The log supply monitoring system in place for SPI's California mills includes a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by each mill's procurement forester on a sample of its suppliers and rule enforcement data received from the California Department of Forestry.

### Sierra Pacific Industries SFI 2015-2020 Surveillance Audit Findings for 2021

Minor nonconformities from previous audits that remain open	0
New major nonconformities	0
New minor nonconformities	0
New opportunities for improvement	1

#### Types of audit findings

##### **Major nonconformities:**

Are pervasive or critical to the achievement of the SFM Objectives.

##### **Minor nonconformities:**

Are isolated incidents that are non-critical to the achievement of SFM Objectives.

All nonconformities require the development of a corrective action plan within 30 days of the audit. Corrective action plans to address major nonconformities must be fully implemented by the operation within 3 months or certification cannot be maintained. Corrective action plans to address minor nonconformities must be fully implemented within 12 months.

##### **Opportunities for Improvement:**

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



## Washington State

### 1. Forest Management Operations:

SPI manages 143,542 acres (Burlington District) and 161,971 acres (Centralia District) of private timberlands in the northwest and southwest portions of the State respectively, managed from district woodlands offices located in Burlington and Centralia. The Company's Washington holdings also include a conifer seed orchard situated on Whidbey Island.

SPI's land holdings in Washington reside in the Cascade Mixed Coniferous Forest ecological subregion. Dominant forest types under SPI management in this subregion include Douglas-fir, Western Hemlock, Western Red Cedar, Sitka Spruce, Grand Fir, Red Alder and Broadleaf Maple at lower elevations and Pacific Silver Fir, Mountain Hemlock and Subalpine Fir at higher elevations. SPI carries out even aged management on its Washington holdings, along with pre-commercial thinning and commercial thinning. All clear-cut stands are planted with trees grown from specific seed zones and elevation bands corresponding to the area of harvest.

Long term resource analyses, based on SPI's inventory program and growth and yield model functions, and associated harvest plans have been established for both the Burlington and Centralia Forest Districts. The analyses and plans reflect the requirements of the Washington Forest Practice Rules, which establish the overall legal requirements respecting long term management planning, harvest scheduling and the identification and protection of non-timber resource values. The operable, forested land base was arrived at in the analyses following reductions for riparian, non-forest, unstable slopes, unproductive land, etc. Mid-term harvest levels have been developed for the two Forest Districts based on the calculated long term sustained yield levels established for the two Forest Districts. Shorter term harvest scheduling (3 years) refines the delineation of the block boundaries by incorporating other spatially explicit considerations (riparian, heritage, roads, etc.). Forest Practice Applications (FPAs) submitted for approval to the Department of Natural Resources (DNR) establish the stand-level operational plan covering timber and non-timber values (which link to Washington's Forest Practice Rule requirements). Detailed annual harvest plans (with block-specific inventory and scheduled cut volumes) are also prepared specifying proposed layout and development and FPA approval status. Harvesting on SPI managed land in Washington also addresses the retention standards of the State of Washington Aquatic Species Habitat Conservation Plan.

In order to ensure that the harvest is sustainable over time, existing annual harvest levels have been established at levels well below the long term sustained yield. SPI's tracked actual harvest level over the 2009—2021 period at the two Forest Districts averaged below the calculated allowed annual harvest level for its Washington operations.

### 2. Fiber Sourcing Operations:

SPI fiber sourcing operations in Washington State are carried out by procurement foresters associated with sawmills located in Aberdeen, Burlington, Centralia and Shelton. A substantial proportion of the Company's Washington mills' fiber supply is obtained through SPI's procurement program.

For SPI's Washington sawmills, the majority of the incoming logs originate from Washington State with small proportions of the total supply coming from British Columbia and Oregon.

The log supply monitoring system in place for SPI's Washington sawmills includes a combination of establishing log purchase contracts with suppliers prior to acceptance of logs at the mills, Best Management Practices monitoring carried out by its procurement foresters on a sample of its suppliers and rule enforcement data received from the Department of Natural Resources.



The audit in the California Forest Districts included a review of harvesting on fire break blocks. The above three photos show the results of thinning on these blocks. Drone footage was used as an assessment tool in 2021. The photos came from drone footage of a harvest block randomly sampled for assessment in this year's audit.

## Audit Scope

The audit was conducted against the requirements of the 2015-2019 edition of the SFI forest management and fiber sourcing standards and incorporated an assessment of selected applicable SFI program objectives for SPI operations in Washington and California as noted under “*Evidence of Conformity with SFI 2015-2019*” below.

In addition to time spent off-site conducting a document review and following the audit preparing the reports and files, the scope of the 2021 SFI surveillance audit included approximately 19 person days of remote assessment time related to the following SPI California and Washington operations:

- Washington procurement operations for the Shelton sawmill.
- Land management operations in California conducted by the Martell, Camino, Tahoe and Burney Districts.
- California procurement operations for the Burney, Anderson, Oroville Fiber Products (Sonora) and Chinese Camp sawmills.
- Remote audit of SPI’s head office located in Anderson, CA.

## The Audit

- **Audit Team** – The surveillance audit was conducted by Craig Roessler, RPF(BC), EP (EMSLA), CF(SIF), who acted as the lead auditor, and Branden Beatty, RPBio(BC). Both have conducted numerous forest management audits under a variety of standards including SFI, PEFC, CSA Z809, FSC and ISO 14001.
- **SFI Surveillance Audit** – The audit involved a remote assessment of selected elements of the Company’s sustainable forest and fiber sourcing management system and SFI program, and included remote assessments of field sites in both Washington and California to evaluate conformance with the requirements of the current version of the SFI standard.
- **SPI SFI Program Representative** – Mr. Cedric Twight served as the SPI SFI program representative during the audit.
- **Multi-site Sampling Approach** – The sites audited this year were selected on the basis of the multi-site sampling approach consistent with the requirements of IAF MD-1, with the specific sites selected based on addressing a combination of geographic distribution, the results of previous audits and the period of time elapsed since the last audit of each operation.
- **Remote Field Audit Sample** – The sites sampled during the audit involved document and record reviews, interviews and drone footage inspection of roads, harvesting practices, silviculture activities and procurement sites on a total of 50 harvest sites across the districts sampled. The sites selected for drone footage review were based on a risk based sampling approach, which considers the need to assess a range of resource issues and management strategies that correlate to the SFI objectives included in the scope of the audit as well as the need to see a geographic distribution of activities, to include active sites and to enable an assessment of actions to address previously identified audit findings. The remote audit processes undertaken were deemed to be effective in allowing the audit team to reach a certification conclusion.

## Use of Substitute Indicators

The following supplemental indicator 4.1.9 was added and assessed against during the 2021 surveillance audit:

Indicator 9: Retention and recruitment of Pacific Fisher habitat elements on SPI California lands through the implementation of the following specific conservation measures



The audit of recently harvested blocks in California determined that SPI is implementing effective harvesting prescriptions which are well tailored to the forest types and conditions and associated management objectives. The above photos came from drone footage of a harvest block assessed in this year’s audit.



established in section 7.3.4 of the “Candidate Conservation Agreement with Assurances for Fishers on the SPI ownership in the Klamath, Cascade, and Sierra Nevada Mountains” between Sierra Pacific Industries and the U.S Fish and Wildlife Service (signed agreement dated October 2016):

No other indicators included in the SFIS were added, modified or substituted for the purpose of this audit.

## Audit Objectives

The objectives of the audit were to evaluate the sustainable forest and fibre sourcing management systems at Sierra Pacific Industries to:

- Determine their conformance with the requirements of the SFI 2015-2019 Forest Management, and the SFI 2015-2019 Fibre Sourcing standards;
- Evaluate the ability of the systems to ensure that Sierra Pacific Industries meets applicable regulatory requirements;
- Evaluate the effectiveness of the systems in ensuring that Sierra Pacific Industries meets its specified objectives, and;
- Where applicable, identify opportunities for improvement.

## Evidence of Conformity with SFI 2015-2019

Primary sources of evidence assessed to determine conformity with the SFI 2015-2019 standard are presented in the table on the next page.

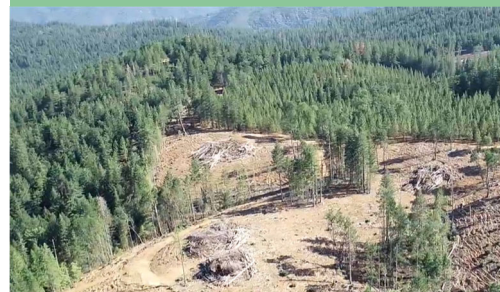
## Good Practices

A number of good practices were identified during the course of the 2021 surveillance audit, including the following examples:

- SFI FM Objective 2: (Martell) A remote inspection of drone footage of a block revealed that it was originally proposed and modeled as an even aged prescription. However, the THP with respect to this unit was changed to a fuel break prescription to reduce the visual impact of the harvest from the county road (as well as to act as a fuel break).
- SFI FM Objective 6: (Tahoe): The District proactively invites and brings out California Geological Survey (CGS) representatives at the pre-harvest stage on units being proposed in steeper areas (such as canyons) and potentially unstable terrain to gain their insight and prescription recommendations on the proposed blocks.
- SFI FM Objective 2 (Company wide): The Company has demonstrated its commitment to fire preparedness and due diligence in preventing fires by updating its 2021 fire policy.

## Addressing Fisher Candidate Conservation Agreement with Assurances

The audit in the California Districts included a focused remote assessment of the fulfillment of the CCAA requirements respecting the conservation and improvement of Pacific Fisher habitat. The drone footage provided to support a remote audit of recently harvested blocks found that SPI was implementing its conservation plans to promote fisher habitat by retaining the required CCAA habitat elements (i.e., as specified above in relation to supplemental SFI FM indicator 4.1.9). Adequate retention was clearly evident in the drone footage of both green harvest and wildfire salvage areas. The audit found that there was a good distribution of a variety of tree species and sizes that were both clumped in Habitat Retention Areas and standing separately (Wildlife, Legacy, and Other retained trees). Consequently, SPI was found to be in conformance with supplemental SFI FM indicator 4.1.9.



Part of the remote audit included an assessment of in-block retention. The audit confirmed that the Districts assessed were doing an effective job of implementing measures to ensure stand level retention, as shown in the above 3 photos.

SFI Forest Management Objective	Sources of Key Evidence of Conformity
1. Forest Management Planning	Forest management plan, geographic information system, forest inventory records, harvesting records, interviews with planning staff.
2. Forest Health and Productivity	Site plans, silviculture reports, field inspections (via a review of drone footage with staff).
3. Protection and Maintenance of Water Resources	NA – not in the 2021 audit scope
4. Conservation of Biological Diversity	While SFI objective 4 was not in audit scope in 2021, supplemental SFI FM indicator 4.1.9 underlying SFI objective 4 (respecting the implementation of conservation plans to promote fisher habitat by retaining the required CCAA habitat elements) was in scope. Key evidence of conformity reviewed in relation to this supplemental indicator included forest management plans, FSP, harvest plans, CCAA tracking forms and maps, field inspections
5. Management of Visual Quality and Recreational Benefits	Forest management plan, FSP, harvest plans, field inspections
6. Protection of Special Sites	NA – not in the 2021 audit scope
7. Efficient Use of Fiber Resources	Forest management plan, waste reports, field inspections.
8. Recognize and Respect Indigenous Peoples' Rights	NA – not in the 2021 audit scope
9. Legal and Regulatory Compliance	THPs (CA) and FPAs & Hydraulic Permits (WA); SPI landowner information package; SPI log purchase contracts; WA Department of Natural Resources & CA Department of Forestry notices; SPI employee manual; Field inspections and interviews.
10. Forestry Research, Science & Technology	NA – not in the 2021 audit scope
11. Training and Education	NA – not in the 2021 audit scope
12. Community Involvement and Landowner Outreach	SIC meeting minutes; SPI public and stakeholder outreach, involvement & communication records; SPI public website; State forestry / contractor association and SIC websites; SPI staff and contractor logger training materials; Interviews.
13. Public Land Management Responsibilities	NA – SPI does not have forest management responsibilities on public lands.
14. Communications and Public Reporting	NA – not in the 2021 audit scope
15. Management Review and Continual Improvement	SPI annual management review meeting and input records; Corporate and District field audit results; Annual Chairman/CFO letter confirming SFI performance review.



The above photos are further examples of the Company's performance in achieving in-block tree retention that meets or exceeds the SPI Fisher CCAA commitments under 7.3.4..



SFI Fiber Sourcing Objective	Sources of Key Evidence of Conformity
1. Biodiversity in Fiber Sourcing	NA – not in the 2021 audit scope
2. Adherence to Best Management Practices	NA – not in the 2021 audit scope
3. Use of Qualified Resource and Logging Professionals	List of Qualified Resource and Logging Professionals, records of proportion of fibre delivered by QLPs, interviews with procurement staff.
4. Legal and Regulatory Compliance	Company policies regarding regulatory compliance, procedures to ensure compliance with applicable regulatory requirements, inspection of a sample of procurement sites, interviews with regulatory agency personnel.
5. Forestry Research, Science & Technology	NA – not in the 2021 audit scope
6. Training and Education	NA – not in the 2021 audit scope
7. Community Involvement and Landowner Outreach	SIC minutes & resources, community and landowner outreach records, staff interviews.
8. Public Land Management Responsibilities	NA – SPI does not have forest management responsibilities on public lands.
9. Communications and Public Reporting	SPI website; SPI supporting records for SFI annual progress report; Latest (2020) and previous year's annual SFI progress reports.
10. Management Review and Continual Improvement	SPI annual management review meeting and input records; Corporate and District field audit results; Annual Chairman/CFO letter confirming SFI performance review.
11. Promote Conservation of Biological Diversity, Biodiversity Hotspots and High-Biodiversity Wilderness Areas	NA – SPI does not source fiber from outside North America.
12. Avoidance of Controversial Sources including Illegal Logging	NA – SPI does not source fiber from outside North America.
13. Avoidance of Controversial Sources including Fiber Sourced from Areas without Effective Social Laws	NA – SPI does not source fiber from outside North America.



Part of the audit included reviews of the Company's road inspection and maintenance program (which was found to be overall well managed, with one opportunity for improvement identified in the Burney District).

### Follow-up on Nonconformities from Previous Audits

At the time of this assessment there was one open nonconformity from previous audits. The audit team reviewed the implementation of the action plans developed by Sierra Pacific Industries to address the issue and found that they had been effectively implemented. As a result, all the non-conformities identified during previous audits have now been closed.

### Areas of Nonconformance

No major or minor nonconformities were identified during the audit.

### Opportunities for Improvement

The following opportunity for improvement was identified during the audit.

1. While the Burney District is generating and maintaining records of infrastructure and/or road maintenance issues that have been identified during inspections along with the maintenance undertaken to address the issues, it is currently not fully documenting the roads and road networks (and associated infrastructure on those roads) that have been covered during the inspections (i.e., if no maintenance issues have been identified). An opportunity exists to generate and maintain such data as it will provide a more systematic basis for scheduling road maintenance inspections in subsequent years (as the operation will know what roads and networks have been inspected and when) and it will also facilitate the generation of improved due diligence records that demonstrate that the operation is managing risk on its roads by fully covering the roads under its road maintenance and inspection program over a reasonable period of time.

### Audit Conclusions

The audit found that Sierra Pacific Industries' sustainable forest, fibre sourcing, certified sourcing label use and chain of custody management systems:

- Were in full conformance with the requirements of the SFI forest management and fibre sourcing requirements included within the scope of the audit except where noted otherwise in this report;
- Have been effectively implemented, and;
- Are sufficient to systematically meet applicable requirements and expected outcomes, provided that the systems continue to be implemented and maintained as required.

In addition, the audit found that the scope of Sierra Pacific Industries' certification to SFI Forest Management and SFI Fibre Sourcing standards is appropriate.

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