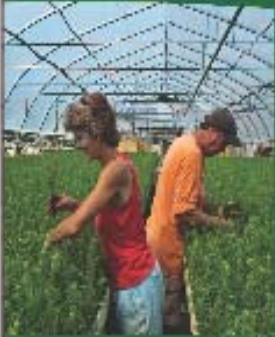


BC Timber Sales

QUARTERLY PERFORMANCE REPORT

for the period April 1st to September 30th, 2013
Fiscal 2013/14

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of
Forests, Lands and
Natural Resource Operations



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INTRODUCTION

BC Timber Sales (BCTS) presents its second quarter performance report for 2013/14. Quarterly performance reports are a key part of the BC Timber Sales Performance Management and Accountability Framework.

Business Goals

BC Timber Sales has four business goals:

Consistent with safe practices, sound forest management, and maintaining effective relationships BC Timber Sales...

1. Is a high-performing organization with skilled, motivated and proud people.
2. Provides a credible reference point for costs and pricing of timber harvested from public land in B.C.
3. Provides a reliable supply of timber to the market, through open and competitive auctions subject to meeting the requirements of cost and price referencing stated in Goal 2.
4. Maximizes net revenue for the Province subject to the requirements of cost and price referencing stated in Goal 2 and supplying timber for auction stated in Goal 3.

Business Outcomes

BC Timber Sales' principles and goals support the outcomes of Economic Prosperity, Sustainable Resources and Excellence.

- Increased safety awareness and a culture of safety in all its practices and operations.
 - BCTS is recognized as demonstrating sound forest management
 - Mutually beneficial working relationships between BCTS and its stakeholders
1. Continuous improvement and long term success of BCTS.
 2. The province's timber Market Pricing System and the Softwood Lumber Agreement with the USA.
 3. Rural economies, jobs and families.
 4. Maximum value for asset and net revenue to support government priorities.

Key Outcome Indicators

The success of BCTS in achieving its business goals is measured through three key outcome indicators.

- BC Timber Sales' timber volume advertised as a percent of projected provincial harvest volume.
- Volume of timber sold.
- Net revenue earned.

QUARTERLY PERFORMANCE HIGHLIGHTS



Overall Performance: Summary of Highlights

Higher than expected prices being paid for timber harvested are resulting in increased Net Revenue for the Province.

Operational issues, a lack of contractor capacity in some areas, and a lack of internal resources are causing some delays in developing, advertising and selling timber as planned. Despite these issues BCTS is still projecting to substantially achieve the majority of its business plan targets by year end.

2013 marks the ten year anniversary of BC Timber Sales. For a summary of some of our accomplishments over the past ten years check out our 2013/14 – 2015/16 Business Plan on our web site.



Safety: Summary of Highlights

BCTS continues to maintain its SAFE Company Certification and collaborate with industry through the BC Forest Safety Council to promote the achievement of safe and healthy workplaces within the forest sector.

In Q2 BCTS completed an internal maintenance audit in order to ensure the Safety Program continues to be effective, and identify potential improvements. In addition BCTS began implementation of the results of the Lean Kaizen improvement workshop to improve the quality and effectiveness of our issue reporting, and investigation processes.

QUARTERLY PERFORMANCE HIGHLIGHTS



Forest Management: Summary of Highlights

BC Timber Sales continues to maintain 100% of its apportioned volume certified to one of three major forest certification standards. BCTS % certification by standard is currently 78% SFI, 21 % CSA, and 1% FSC. For Q2 of Fiscal Year 2013-2014:

- The Babine Business Area (TBA) has begun the process of recertifying its operations in the Morice TSA to the SFI 2010-2014 Standard by 2013 calendar year-end. The TBA Morice TSA was previously certified to CSA. This will bring all of TBA operations under the BCTS SFI multi-site certificate.
- BCTS Chinook Business Area (TCH) was suspended from the FSC Certificate held by, and managed by Taan Forest LP, as of July 4, 2013. Suspension from the Certificate is a result of the inability to find a solution to external audit Minor Non-conformance. Parties have agreed to follow the current FSC Management Plan and to work together to develop a long-term agreement to maintain FSC certification over the license area.
- BCTS continues to actively engage with industry and government colleagues in a number of forestry initiatives such as Ecosystem Based Management, forest Certification, EMS, Species at Risk Management, Invasive Species and Climate adaptation.

High Performing Organization: Summary of Highlights

A review role and effectiveness of BC Timber Sales commenced in the second quarter. The review has been divided into two parts; role and effectiveness. Work on the BCTS role is expected to be complete by the end of the third quarter. Work on the effectiveness part of the review will commence in the fourth quarter.

The number of critical staff vacancies continued to grow through the second quarter as the government hiring freeze continues to adversely affect BCTS effectiveness and performance.





Effective Relationships: Summary of Highlights

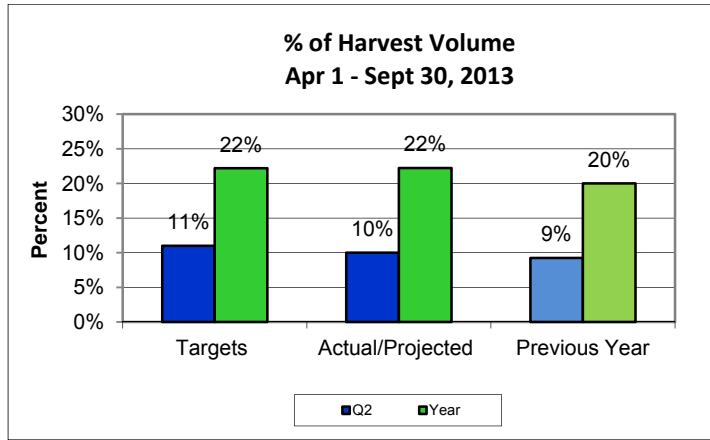
Effectiveness in building and maintaining strong relationships is critical to ensuring BC Timber Sales continues to meet government's objectives and delivers superior and enduring performance. To that end, there are a range of collaborative agreements that the program has and will continue to pursue across the province that strengthen relationships with First Nations and rural communities. Virtually all of BC Timber Sales Business Areas have some form of business to business agreement, totalling approximately 80 agreements. Agreements range from protocol agreements -most commonly in the form of memoranda of understanding- and good neighbour agreements, which includes joint Forest Stewardship Plans, and basic service agreements. BC Timber Sales is initiating and being called upon to engage in an increasing number of more sophisticated service, co-operative management and other forms of business agreements.

BC Timber Sales also continues to collaborate with the First Nations Relations Branch of the Ministry of Forests, Lands and Natural Resource Operations and other government agencies to support the BC First Nations Forestry Council "First Nations Forestry Technician Training Program". This program assists First Nations students develop their skills and knowledge of the forest industry with the goal of building capacity for First Nations to be full partners in the sector.

PROVIDING A CREDIBLE REFERENCE POINT

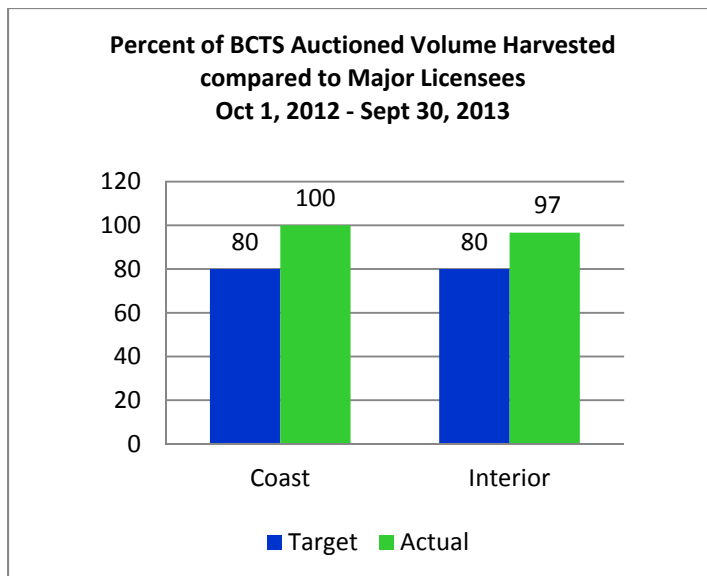
for costs and pricing of timber harvested from public land in B.C.

BCTS auction volume as a percent of projected provincial harvest



The volume of timber advertised by BCTS must be at a level sufficient to support the Market-based Pricing system. In the second quarter BCTS had advertised 10% of the projected annual provincial harvest volume. This is 9% less than target and 11% higher than last year's second quarter performance. BCTS is projecting to advertise 22% of the projected provincial harvest volume by year end.

Timber Sales sold, in total, provide sufficient data to support the market pricing system.



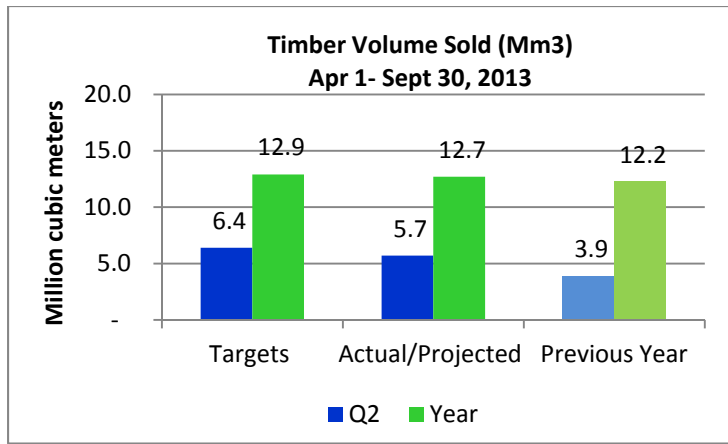
For BCTS to ensure it provides credible data to establish market-based stumpage rate it has to develop and auction sufficient timber sales to provide statistically credible data to the Market Pricing System. For the year ending September 30th, 2013 BCTS has delivered a representative harvest in both the interior and the coast regions. Coast BCTS volume harvested was within both 10 and 5 percentage points of the Major Licensee harvest volume by species and grade 100% of the time. In the Interior the harvest volume was within 5 percentage points 87% of the time and 10 points 97% of the time.

There is no single measure that completely demonstrates our success in providing sufficient data. However, the percent of volume harvested from BCTS auctioned volume as a percentage of the total timber volume harvested from BCTS auctioned volume is within 10 percentage points of the volume harvested by the Major Licensees as a percentage of the total timber volume harvested by the Major Licensees for each major species and grade 80% of the time is a strong indicator of our success in auctioning timber that holistically is representative of the timber species and grades being harvested by the Major Licensees.

PROVIDING A RELIABLE SUPPLY OF TIMBER

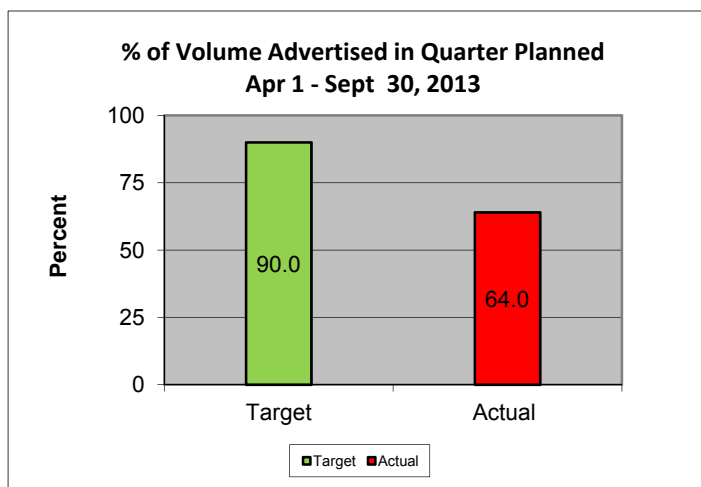
to the market, through open and competitive auctions.

Timber Volume Sold



A key indicator that BCTS is providing a reliable supply of timber to the market is the total timber volume it sells. BCTS sold 5.7 million cubic metres of timber through competitive auctions in the first six months. This is 11% less than target and 47% higher than the prior year's performance. A lack of staff resources and operational issues are adversely impacting performance. BCTS is projecting to sell 2% less than its target volume sold by year end.

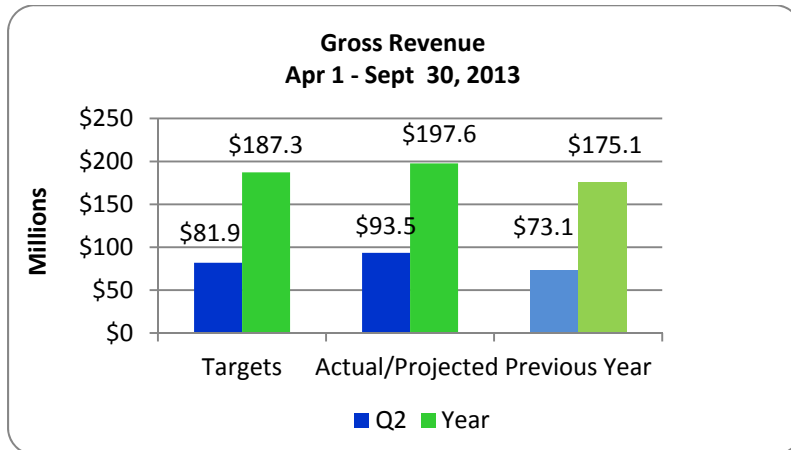
The volume of timber supplied to the market is reliable



The percent of timber volume advertised in the quarter planned is another indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. BCTS did not achieve its target in the second quarter. Only 5 of 12 business areas achieved the target. Six business areas under achieved the target due to weather delays, operational issues and a lack of staff resources.

MAXIMIZING NET REVENUE FOR THE PROVINCE

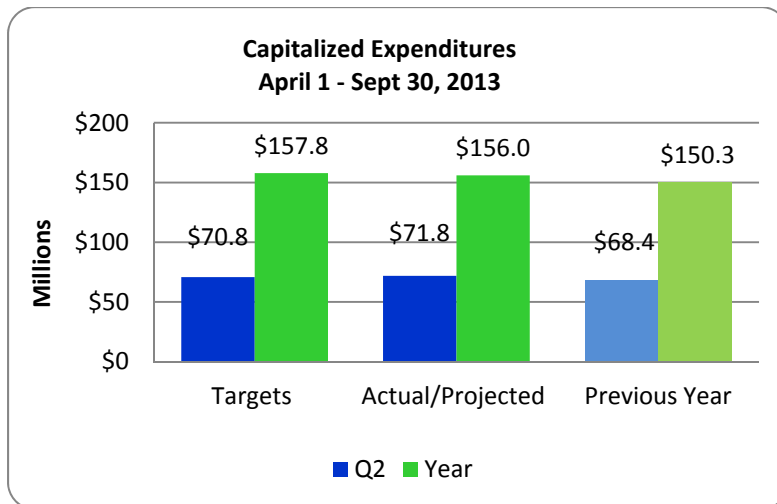
Gross Revenue



BCTS gross revenue for the first six months was \$93.5 million – \$11.6 million more than target. Compared to the same period in the previous year, gross revenue earned has increased \$20.5 million or 28%.

BCTS is projecting to exceed its target gross revenue for the year by 10.3 million or 6%. The increase to gross revenue is due to higher than expected billed rates.

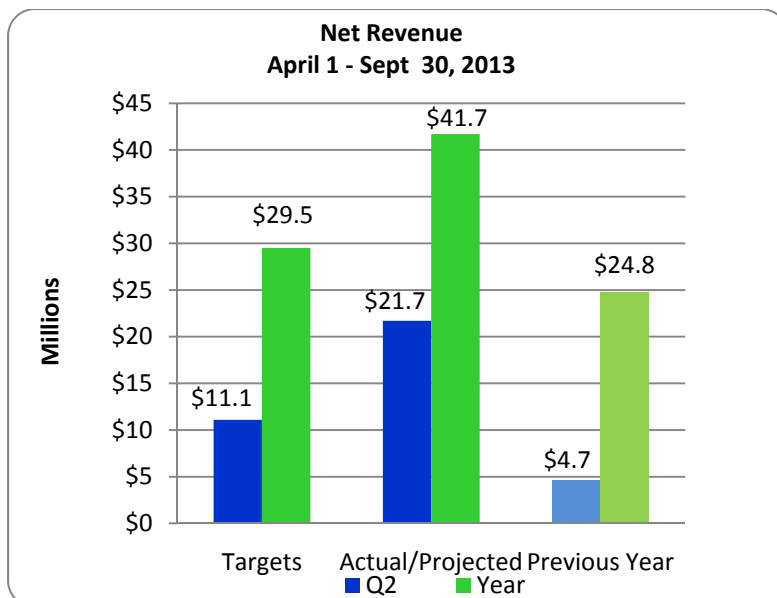
Less: Capitalized Expenditures



Capitalized expenditures for the first six months were \$3.4 million higher than the previous year due to increased harvest volumes over the previous year.

BCTS is projecting year end expenditures of \$156 million which is 1% less than target due to cost savings.

Equals: Net Revenue

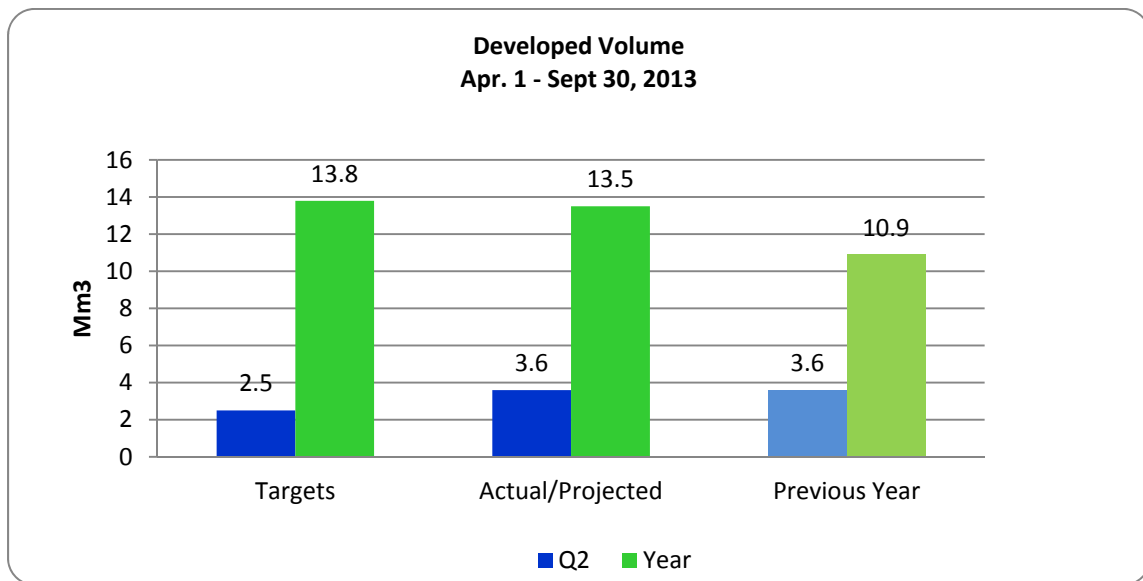


Net revenue for the first six months was \$10.7 million higher than target and \$17 million greater than last year as a result of higher than expected revenues.

BC Timber Sales is projecting to over achieve its net revenue target by \$12.2 million by year end as a result of higher than expected billed rates and cost savings.

PRODUCTION

Production of Developed Timber Volume Available for Sale



In order to ensure a future reliable supply of timber to the market, maximise future net revenues and meet future demand for timber sales BCTS must ensure sufficient timber is developed each year.

To date BCTs has developed 3.6 million cubic metres of timber ready for sale and is ahead of schedule by 1.1 million cubic metres. A shortage of staff and contracted resources is impacting performance and BCTS is projecting to under achieve its target for the year by 0.3 million cubic metres or 2%. Continued staffing restrictions could further impact production performance in quarters 3 and 4.

APPENDIX 1 - OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1st to Sept 30th, 2013

Note 1: The timing variance is the volume of timber advertised but not yet sold at cut off.

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Offered (Mm3)	7.1	6.4	1.5	2.6	2.3
Less: No Bid Sales/No Sale	(0.6)	(0.8)	(0.0)	(0.6)	(0.2)
Less: Timing Variance (note 1)		(0.3)	(0.0)	(0.1)	(0.2)
Plus: YE Timing Variance		0.4	0.1	0.2	0.1
Volume Sold (Mm3)	6.4	5.7	1.6	2.1	2.0
Volume Harvested (Mm3)	4.8	4.5	1.5	1.3	1.7
Roads (km constructed)	73	22	2.8	4.3	14.7
Bridges (number installed)	41	30	10	9	11
Deactivation (km deactivated)	64	72	14	29	29
Site Prep (Ha)	1,919	2,278	0	190	2,088
Planting (Millions of seedlings planted)	27.4	27.8	2.4	10.9	14.5

Lump Sum Timber Sale Licences	Number (TSL)	Volume (Mm3)
• Advertised	87	2.69
• Less: No Bid/No Sale	(13)	(0.43)
• Total Sold	74	2.26

APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2013 – Sept 30, 2013

	2013/14 First quarter (Millions)	2013/14 Second quarter (Millions)
Revenue from External Sources	\$41.1	\$52.4
GROSS REVENUE	\$41.1	\$52.4

Capitalized Expenses:

Cost of Timber Inventory Harvested

Administration / Salaries	\$4.1	\$8.2
Planning & Sales	\$3.0	\$6.3
Access - Amortization	<u>\$7.1</u>	<u>\$7.0</u>
Sub-Total Cost of Timber Inventory Harvested	(\$14.2)	(\$21.5)

Other Costs

Silviculture Liability Expense	\$8.8	\$8.7
Road & Bridge Maintenance	\$0.7	\$3.7
Road Deactivation	\$0.0	\$0.0
Harvest Conformance	\$0.2	\$0.1
Operational & Administrative Overhead	\$8.2	\$6.1
Land Base Investment/ Forest For Tomorrow (FFT)	\$2.0	\$2.0
Land Base Investment/ FFT Recoveries	<u>(\$2.1)</u>	<u>(\$2.3)</u>
Sub-Total Other Costs	<u>(\$17.8)</u>	<u>(\$18.3)</u>

NET REVENUE/(LOSS)	<u>\$ 9.1</u>	<u>\$ 12.6</u>
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Selected Balance Sheet Items	2013/14 First Quarter (Millions)	2013/14 Second quarter (Millions)
Silviculture Liability	\$ 93.7	\$ 90.5
Inventory Value of Developed Timber		
Timber Inventory – Opening Balance	\$122.5	\$126.6
Timber Developed	<u>\$ 11.2</u>	<u>\$ 14.4</u>
Timber Available for Sale	\$133.7	\$141.0
Cost of Timber Inventory Harvested	<u>(\$ 7.1)</u>	<u>(\$ 14.5)</u>
Timber Inventory – Closing Balance	\$126.6	\$126.5
Roads		
Book Value	\$702.3	\$709.1
Accumulated Amortization	<u>(\$450.0)</u>	<u>(\$457.0)</u>
Net Book Value	\$252.3	\$252.1
Deactivation Liability	\$ 5.2	\$ 5.2
Seed Inventory	\$ 22.0	\$ 22.1

(Unaudited)

APPENDIX 3 - Key MPS Variables Distribution Comparisons—Interior

Table 1: Interior BCTS Representativeness Analysis* - Grades

October 1, 2012 to September 30, 2013

Species Group	Grade	Tenure			
		BCTS Auctions**		Major Licences***	
Coniferous	1	72,1904	9.8%	4,852,018	13.4%
	2	1,360,064	18.4%	9,128,547	25.1%
	3		0%		0%
	4	476,696	6.5%	3,855,432	10.6%
	5		0%		0%
	6	17,592	0.2%	112,301	0.3%
	Dead Potential	2,504,256	33.9%	11,417,417	31.5%
	Live	2,215,769	30%	6,294,818	17.3%
	blank		0%		0%
	Coniferous Total		7,296,282	98.8%	35,660,536
Deciduous	1	187.61	0.0%	13,412	0.0%
	2	5385.735	0.1%	24,4884	0.7%
	3		0%	0	0%
	4	7,194	0.1%	305,121	0.8%
	5	0	0%	0	0.0%
	6	74	0.0%	2,589	0.0%
	Dead Potential	3,792	0.1%	6,262	0.0%
	Live	75,812	1.0%	74,633	0.2%
	blank	0	0%	0	0%
	Deciduous Total		92,447	1.3%	646,903
Interior Total		7,388,729	100.0%	36,307,440	100.0%

Table 2: Interior BCTS Representativeness Analysis* - Species

October 1, 2012 to September 30, 2013

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***		
Coniferous	Balsam	59,6403	8.1%	2,977,210	8.2%	
	Cedar	131,679	1.8%	629,730	1.7%	
	Cypress	56	0.0%	12	0.0%	
	Fir	282,903	3.8%	2,320,259	6.4%	
	Hemlock	204,706	2.8%	619,952	1.7%	
	Larch	77,989	1.1%	360,977	1.0%	
	Lodge-Pine	4,559,526	61.7%	19,547,346	53.8%	
	Spruce	1,421,718	19.2%	9,125,952	25.1%	
	White Bark Pine	134	0.0%	1,630	0.0%	
	White Pine	10,679	0.1%	56,940	0.2%	
	Yellow Pine	10,484	0.1%	20,524	0.1%	
	Yew		0%		0%	
	Coniferous Total		7,296,282	98.8%	35,660,536	98.2%
	Deciduous	Alder		0%		0%
Aspen		63,335	0.9%	543,899	1.5%	
Birch		17,928	0.2%	9,294	0.0%	
Cottonwood		11,183	0.2%	93,704	0.3%	
Maple			0%	0	0%	
Willow			0%	6	0.0%	
Deciduous Total			92,447	1.3%	646,903	1.8%
Interior Total		7,388,729	100.0%	36,307,440	100.0%	

All logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.

** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'

*** Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

APPENDIX 3- Key MPS Variables Distribution Comparisons— Coast

Table 3: Coast BCTS Representativeness Analysis* - Grades

October 1, 2012 to September 30, 2013

SPECIES_GROUP	GRADE	Tenure			
		BCTS Auctions**		Major ***	
Coniferous	B	1,187	0.1%	11,388	0.1%
	C	14,059	0.6%	130,303	1.2%
	D	27,542	1.1%	178,622	1.6%
	E	70	0.0%	2,279	0.0%
	F	27,895	1.2%	205,454	1.9%
	G	207	0.0%	7,662	0.1%
	H	460,034	19.0%	2,333,656	21.2%
	I	254,046	10.5%	1,261,066	11.4%
	J	1,050,791	43.4%	4,792,263	43.5%
	K	12,748	0.5%	124,246	1.1%
	L	26,711	1.1%	204,083	1.9%
	M	29,853	1.2%	116,793	1.1%
	U	336,232	13.9%	1,086,257	9.9%
	W			0%	0%
	X	98,133	4.1%	301,950	2.7%
	Y	72,598	3.0%	218,100	2.0%
	Coniferous Total		2,412,114	99.6%	10,974,131
Deciduous	W	10,292	0.4%	43,535	0.4%
	Y	579	0.0%	1,221	0.0%
Deciduous Total		10,872	0.5%	44,756	0.4%
Coast Total		2,422,987	100.0%	11,018,887	100.0%

Table 4: Coast BCTS Representativeness Analysis* - Species

October 1, 2012 to September 30, 2013

SPECIES_GROUP	SPECIES	Tenure				
		BCTS Auctions**		Major Licences***		
Coniferous	Balsam	245,760	10.1%	1,181,765	10.7%	
	Cedar	608,162	25.1%	2,338,931	21.2%	
	Cypress	74,784	3.1	366,733	3.3%	
	Fir	532,872	22.0%	2,179,810	19.8%	
	Hemlock	879,323	36.3%	4,579,700	41.6%	
	Lodge-Pine	19,463	0.8%	9,590	0.1%	
	Spruce	49,637	2.1%	311,333	2.8%	
	White Bark Pine		0%	5	0.0%	
	White Pine	2,110	0.1%	6,260	0.1%	
	Yellow Pine		0%		0%	
	Yew		0%		0%	
	Coniferous Total		2,412,114	99.6%	10,974,131	99.6%
	Deciduous	Alder	9,137	0.4%	40,882	0.4%
Aspen			0%		0%	
Arbutus			0%		0%	
Birch		697	0.0%	282	0.0%	
Cottonwood		194	0.0%	2,025	0.0%	
Maple		843	0.0%	1,565	0.0%	
Deciduous Total		10,872	0.5%	44,756	0.4%	
Coast Total		2,422,987	100.0%	11,018,887	100.0%	

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Coast grades only.

** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'

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For more information on BC Timber Sales

visit our Web site at

www.for.gov.bc.ca/bcts

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