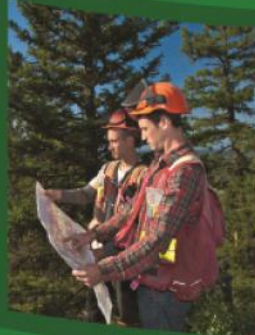


BC Timber Sales

QUARTERLY PERFORMANCE REPORT

*for the period April 1st to June 30th, 2014
Fiscal 2014/15*

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of
Forests, Lands and
Natural Resource Operations



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INTRODUCTION

BC Timber Sales (BCTS) presents its first quarter performance report for 2014/15. Quarterly performance reports are a key part of the BC Timber Sales Performance Management and Accountability Framework.

Business Goal

BC Timber Sales has one goal and three objectives:

Goal:

Provide credible representative price and cost *benchmark data for the Market Pricing System through auctions of timber harvested from public land in British Columbia.*

Objectives:

1. ***Sell the full BC Timber Sales' apportionment over the business cycle, consistent with safe practices & sustainable forest management.***
2. ***Generate direct net revenue and indirect revenue for the Province over the business cycle.***
3. ***Continuous Business Improvement***

Principle 1 - Sustainable Forest Management.

Principle 2 - Forest Sector Safety

Business Outcomes

BC Timber Sales' goal, objectives and principles support the outcomes of **Economic Prosperity**, **Sustainable Forest Management** and **Forest Sector Safety**.

- Market priced timber
1. Rural economies, jobs & families
 2. Maximum value for asset & net revenue to support government priorities.
 3. Continuous improvement & long term success of BCTS.
- BCTS is recognized as demonstrating sound forest management.
 - Increased safety awareness & a culture of safety in all its practices & operations.

Key Indicators

The success of BCTS in achieving its business goal is measured through three key 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

- Slow start to the year.
- Underachieved most first quarter performance targets.
- Expect improvement and the achievement of most year-end targets.
- Projecting to achieve goal of providing credible representative price and cost benchmark data for the Market Pricing System through auctions of timber harvested from public land in British Columbia.
- Projecting to achieve all business plan objectives.



Principle 1: Forest Management

BCTS currently has 100% of its apportioned volume certified to one of three major forest certification standards. BCTS % certification by standard is currently 80% SFI, 19% CSA, and 1% FSC.

For Q1 of Fiscal Year 2014-2015:

- BCTS is participating in the review of the 2015-2019 Sustainable Forestry Initiative (SFI) standard,
- BCTS is participating as a member of the Canadian Standards Association (CSA) Technical Committee on Sustainable Forest Management (SFM) in the periodic review of the CSA Z809 SFM standard,
- BCTS also actively participates in the CSA User Group, the PEFC Canada National Governing Body and the Western Canada SFI Implementation Committee (WCSIC).



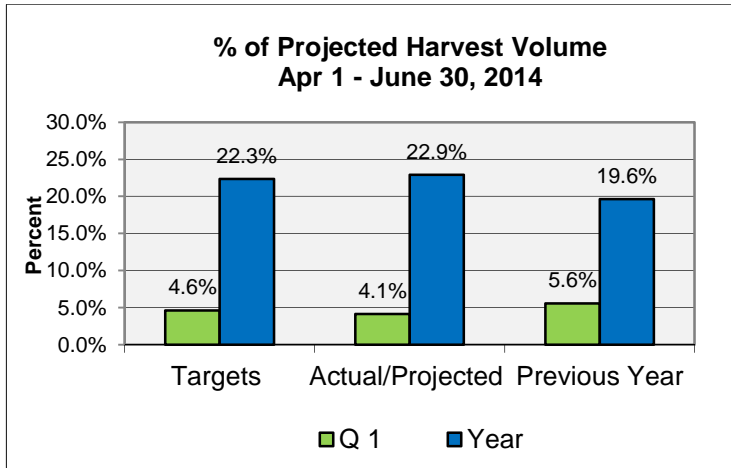
Principle 2: Safety

BC Timber Sales successfully completed an internal maintenance audit of its safety program in the quarter. The audit is required in order to maintain Safe Company certification. The results of the audit will be used to direct safety continuous improvement efforts for the next year.

BCTS continues to collaborate with industry through the BC Forest Safety Council to promote the achievement of safe and healthy workplaces within the forest sector. BCTS is represented on several industry led working groups of the BC Forest Safety Council. Most recently BCTS has engaged with the Coast Harvest Advisory Group which is working to address safety issues that are specific to coastal harvesting, and the Trucking Advisory Group which is working to improve logging truck safety on Public Roads

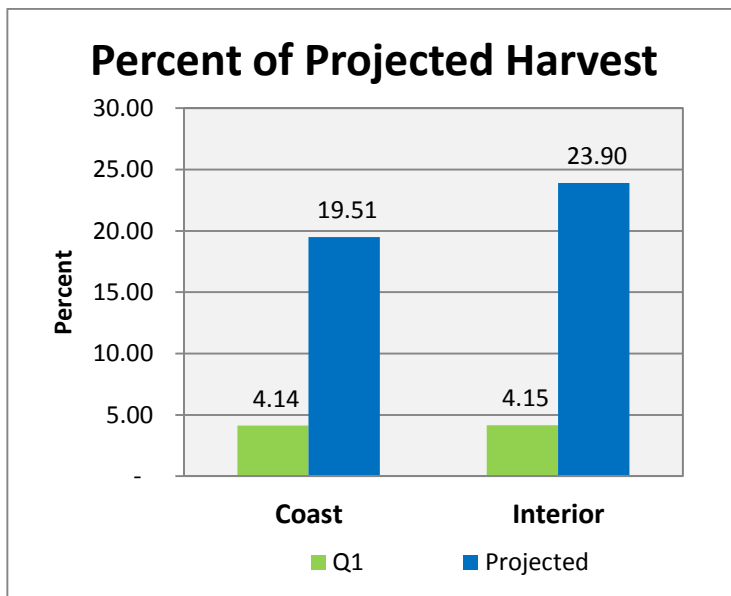
GOAL: PROVIDING CREDIBLE DATA FOR MPS

BCTS auction volume as a percent of projected provincial harvest



The volume of timber auctioned by BCTS must be at a level sufficient to support the Market-based Pricing System. In the first quarter BCTS had advertised 4% of the projected annual provincial harvest volume. This is 11% less than target and 27% less than last year's first quarter performance. BCTS is projecting to auction 23% of the projected provincial harvest volume by year end.

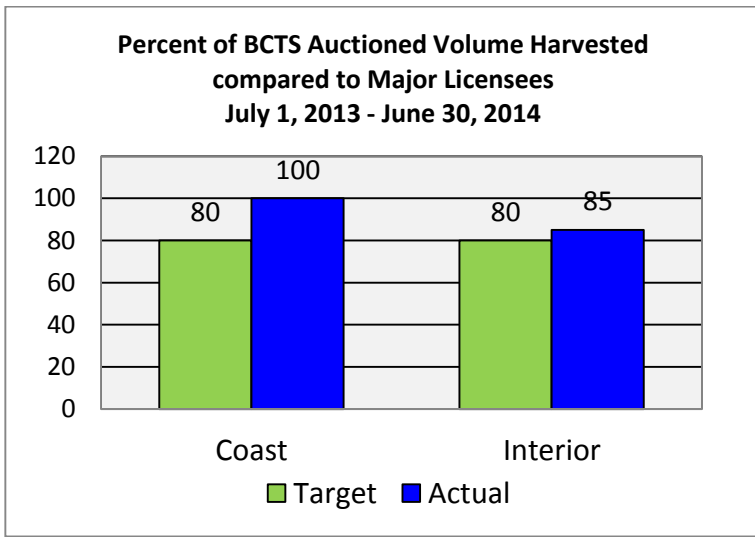
BCTS Auction Volume as a % of Projected Provincial Harvest Volume – Coast and Interior



In the first quarter BCTS had advertised 4% of the total projected harvest volume in both the Coast and the Interior. BCTS is projecting to auction 18% in the Coast and 24% in the Interior by year end.

GOAL: PROVIDING CREDIBLE DATA FOR MPS

The percent of BCTS volume sold is within 5% of the percent of harvest volume by major licensees for each major species and grade MPS attribute 80% of the time



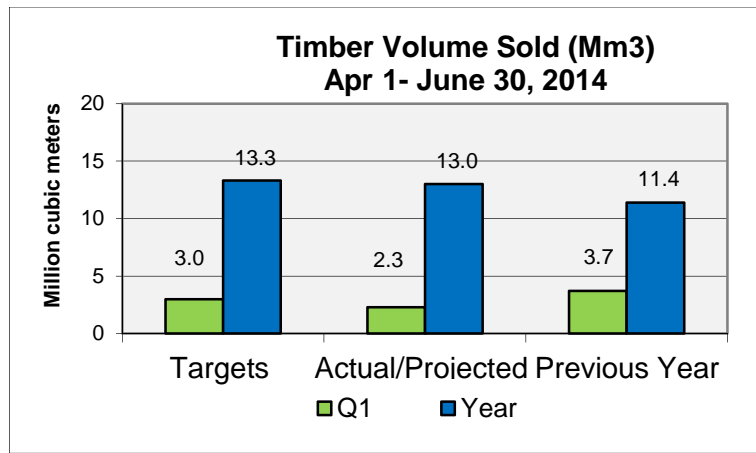
For BCTS to ensure it provides credible data to establish market-based stumpage rate it has to develop and auction a representative volume of timber sales to provide statistically credible data to the Market Pricing System. For the year ending June 30th, 2014 BCTS achieved its target for both the interior and the coast regions. BCTS auction volume harvest was within 5 percentage points of the Major Licensee harvest volume by species and grade more than 80% of the time.

For BCTS to ensure it provides credible data to establish market-based stumpage rate it also has to ensure its data is complete, accurate, reliable and verifiable.

- BCTS is implementing a Data Quality Management System which will be applied to all Performance Metric data with Action Plan developed for identified weaknesses.

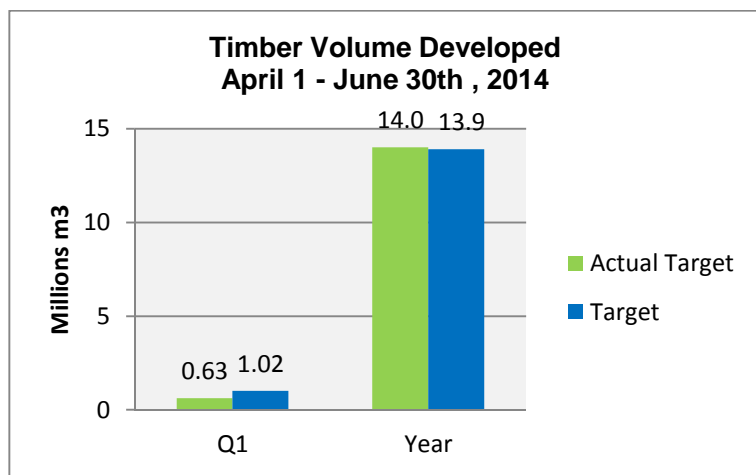
OBJECTIVE 1: SELLING THE APPORTIONMENT

Timber Volume Sold



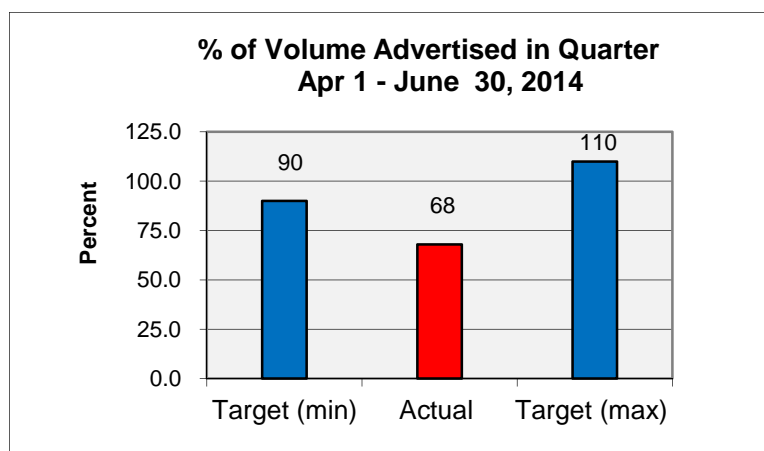
A key measure that BCTS is selling its apportionment over the business cycle is the total timber volume it sells. BCTS sold 23% less timber than target and 38% less than the prior year's first quarter performance. Although off to a slow start to the year BCTS is projecting to substantially achieve its target volume sold by year end – a 14% increase. BCTS apportionment for the year is 14.2Mm3. BCTS is planning to sell 91.5% of its annual apportionment.

Develop sufficient timber to maximise timber volume offered and sold



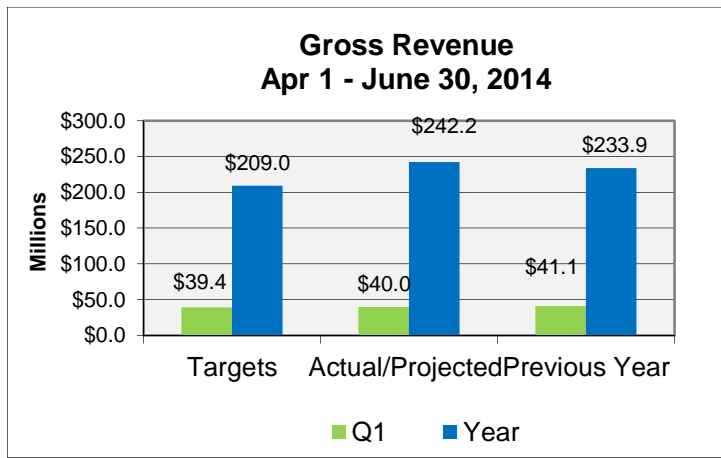
In order to have sufficient inventory to achieve its volume sold target BCTS plan and develop timber for auction. During the first quarter BCTS developed 630,000 m3. Due to resource constraints and a slow start this was 38% less than target. Despite the slow start BCTS is projecting to develop 13.9Mm3 and achieve target by the end of the fiscal year.

The volume of timber supplied to the market is reliable



The percent of timber volume advertised in the quarter planned is an indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. In the first quarter, 6 of 12 business areas achieved their planned volumes. In total, due to the slow start BCTS only advertised 68% of timber volume planned.

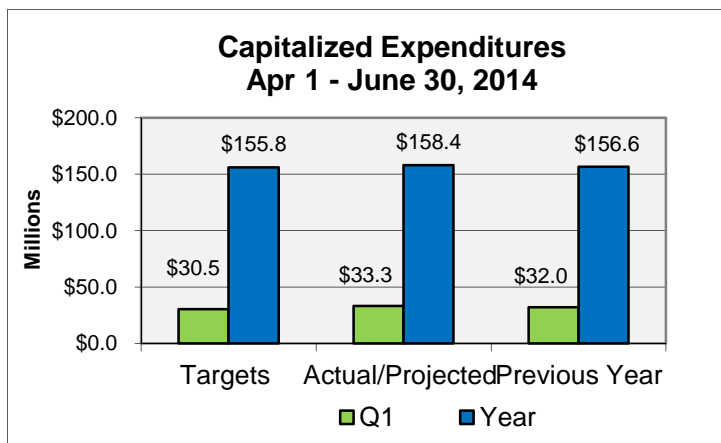
OBJECTIVE 2: REVENUE



Gross Revenue

BCTS gross revenue for the first quarter was \$40.0 million – achieving target. Compared to the first quarter of the previous year, gross revenue earned decreased \$1.1million or (3%).

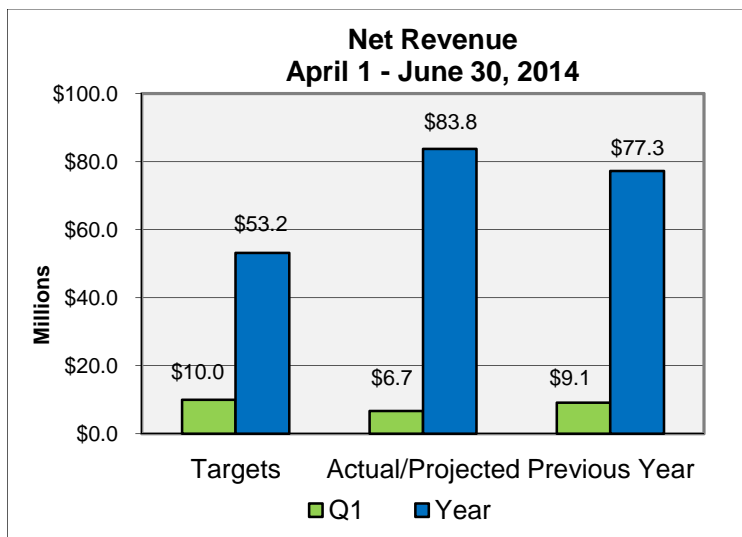
BCTS is projecting to make up for the slow start and realise higher than expected prices to exceed its target gross revenue for the year.



Less: Capitalized Expenditures

Capitalized expenditures for the first three months were \$1.3 million more than the previous year and \$2.8 million more than target.

Due to a higher than projected silviculture liability expense BCTS is projecting year end expenditures of 2% higher than target.



Equals: Net Revenue

Net revenue for the first three months was \$3.3 M less than target and \$2.4 M less than last year. BCTS is expecting to recover from the slow start and is projecting to over achieve its net revenue target by \$30.6M by year's end.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

To effectively realize its vision, achieve its mission and goal, deliver superior performance, and make a distinct and lasting impact, BC Timber Sales needs to be continuously improving. BC Timber Sales believes that **“Only those with Excellent Processes and Excellent People will truly excel”**. To achieve this BC Timber Sales and its people are committed to continuously learn, innovate and lead themselves through change in the pursuit of excellence and has embraced **Lean** as the next step in our continuous improvement.

Increase efforts to achieve business to business partnerships and agreements with customers and/or third parties such as First Nations and communities

- BCTS continued to pursue a range of collaborative agreements across the province to strengthen relationships with First Nations and rural communities. However, no new
- BCTS also continued to collaborate with the Ministry’s First Nations Relations Branch and other government agencies to support the BC First Nations Forestry Council “First Nations Forestry 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, while fulfilling the need for qualified people within the forestry sector. The students are being mentored by staff from local BCTS offices across the province. Three of these students are continuing into the second year of summer work experience with BCTS as part of the two-year pilot program. An additional 5 students have been hired to gain summer work experience, and will also be mentored by BCTS staff
- “British Columbia acknowledges the recent Supreme Court of Canada Tsilhqot’in decision. The Province is still in the process of reviewing that decision and considering any implications for the business of the province, including assessment of the strength of claims to Aboriginal title.”

Pursue excellence in people

- During the first quarter a new BCTS People Practices Working group was formed. The focus of this group is to develop and deliver on action items to improve staff engagement identified as a result of the 2013 Work Environment Survey.

Pursue excellence in operations, practices and processes

- The Northern Lean project was initiated. The purpose of this project is to develop and implement a strategy to ensure the long term financial and operational success of BCTS in the North by applying a systems approach and Lean methodologies. The project is expected to include at least eight Lean Kaizen continuous improvement workshops involving the major business line to sustainably develop, advertise and sell the BCTS apportionment, at a target average total cost while achieving the BCTS goal & objectives.
- In addition, BCTS has engaged the BC Public Service Agency in a full-service hiring project, to support managers throughout the organization to meet significant hiring demand.

APPENDIX 1 - OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1st to June 30th, 2014

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)	2.9	2.7	0.6	1.1	1.0
Less: No Bid Sales/No Sale	(0.1)	(0.3)	(0.1)	(0.1)	(0.1)
Less: Timing Variance (note 1)		(0.5)	(0.1)	(0.2)	(0.2)
Plus: YE Timing Variance		0.4	0.0	0.3	0.1
Volume Sold (Mm3)	2.8	2.3	0.4	1.1	0.8
Volume Harvested (Mm3)	1.9	1.5	0.9	0.2	0.4
DELIVERABLES					
Roads (km constructed)	7	3	3	0	0
Bridges (number installed)	8	2	0	1	1
Deactivation (km deactivated)	3	22	0	0	22
Site Prep (Ha)	119	103	0	0	103
Planting (Millions of seedlings planted)	11.8	9.6	1.0	5.4	3.2

Lump Sum Timber Sale Licences	Number (TSL)	Volume (Mm3)
• Advertised	52	1.39
• Less: No Bid/No Sale	(8)	(0.14)
• Total Sold	44	1.25

APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2014 – June 30, 2014

	2013/14 First quarter (Millions)	2014/15 First quarter (Millions)
Revenue from External Sources	\$41.1	\$40.0
GROSS REVENUE	\$41.1	\$40.0

Capitalized Expenses:

Cost of Timber Inventory Harvested

Administration / Salaries	\$4.1	\$4.2
Planning & Sales	\$3.0	\$3.4
Access - Amortization	<u>\$7.1</u>	<u>\$6.9</u>
Sub-Total Cost of Timber Inventory Harvested	(\$14.2)	(\$14.5)

Other Costs

Silviculture Liability Expense	\$8.8	\$10.4
Road & Bridge Maintenance	\$0.7	\$1.8
Road Deactivation	\$0.0	\$0.0
Harvest Conformance	\$0.2	\$0.0
Operational & Administrative Overhead	\$8.2	\$6.7
Land Base Investment/ Forest For Tomorrow (FFT)	\$2.0	\$0.8
Land Base Investment/ FFT Recoveries	<u>(\$2.1)</u>	<u>(\$0.9)</u>
Sub-Total Other Costs	<u>(\$17.8)</u>	<u>(\$18.8)</u>

NET REVENUE/(LOSS)	<u>\$ 9.1</u>	<u>\$ 6.7</u>
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Selected Balance Sheet Items

	June 30th 2013/14	June 30th 2014/15
	(Millions)	(Millions)
Silviculture Liability	\$ 93.7	\$ 104.5
Inventory Value of Developed Timber		
Timber Inventory – Opening Balance	\$122.5	\$124.9
Timber Developed	<u>\$ 11.2</u>	<u>\$ 7.4</u>
Timber Available for Sale	\$133.7	\$132.3
Cost of Timber Inventory Harvested	<u>(\$ 7.1)</u>	<u>(\$ 7.6)</u>
Timber Inventory – Closing Balance	\$126.6	\$125.7
Roads		
Book Value	\$702.3	\$722.3
Accumulated Amortization	<u>(\$450.0)</u>	<u>(\$473.3)</u>
Net Book Value	\$252.3	\$249.0
Deactivation Liability	\$ 5.2	\$ 7.9
Seed Inventory	\$ 22.0	\$ 22.0

(Unaudited)

For more information on BC Timber Sales

visit our Web site at

www.for.gov.bc.ca/bcts

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