

BC Timber Sales

QUARTERLY PERFORMANCE REPORT

*For the period April 1st to Dec 31st, 2015
Fiscal 2015/16*

ECONOMIC PROSPERITY - SUSTAINABLE RESOURCES - EXCELLENCE



Ministry of
Forests, Lands and
Natural Resource Operations

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INTRODUCTION

BC Timber Sales (BCTS) presents its third quarter performance report for 2015/16. 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**.

Economic Prosperity

- Market priced timber.
- Rural economies, jobs & families.
- Maximum value for asset & net revenue to support government priorities.
- Continuous improvement & long term success of BCTS.

Sustainable Forest Management

- BCTS is recognized as demonstrating sound forest management.

Forest Sector Safety

- 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

- At this time BCTS is projecting to achieve the majority of its Business Plan objectives.
- BCTS is on track to auction sufficient timber volume to support the Market Pricing System.
- BCTS sold 86% of its timber volume sold target for the third quarter. However, BCTS is projecting to make up for the underachievement in the fourth quarter, and substantially achieve its year-end target.
- BCTS is ahead of target for direct Net Revenue and expects to exceed its target for the year.



Principle 1: Forest Management

- BCTS continues to maintain 100% of its apportioned timber volume certified to one of the three major forest certification standards.
- BCTS Seaward-Tlasta BA has withdrawn its FSC Group Certification in the Great Bear Rainforest (GBR) effective October 16th, 2015. However, BCTS operation in the GBR continues to be certified under SFI.
- BCTS is representing itself and the Ministry as a member of the CSA Technical Committee on SFM and Director of PEFC Canada.

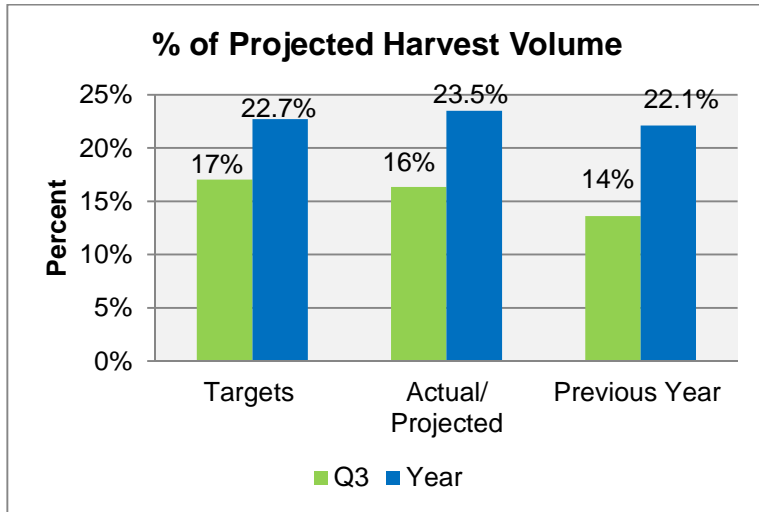


Principle 2: Safety

- BCTS Safety Working Group has reviewed the results of the 2015 audit, management reviews and identified four goals for the BCTS Safety program
 - Enhanced BCTS Safety Performance
 - Improve BCTS Safety Practices
 - Enhance BCTS safety values and beliefs
 - Continuously Improved the BCTS safety Program.
- BCTS continues to collaborate with industry through the BC forest safety council to promote the achievement of safe and healthy workplaces with the ministry and the forest sector.

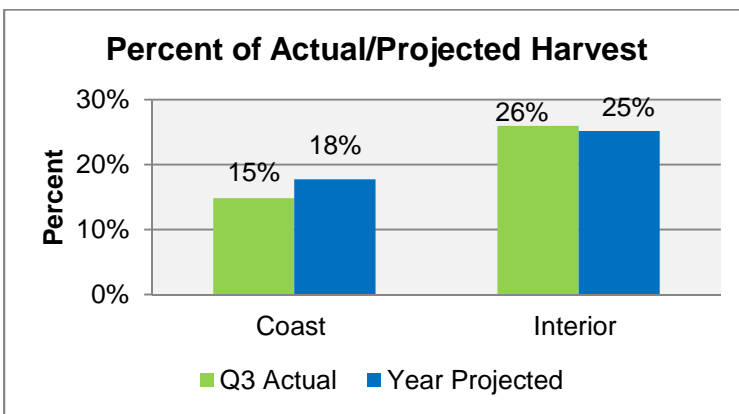
GOAL: PROVIDING CREDIBLE DATA FOR MPS

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 first three quarters BCTS had advertised 16% of the projected annual projected provincial harvest volume. BCTS is projecting to exceed its year-end target and auction 23.5% of the projected harvest volume by year-end. .

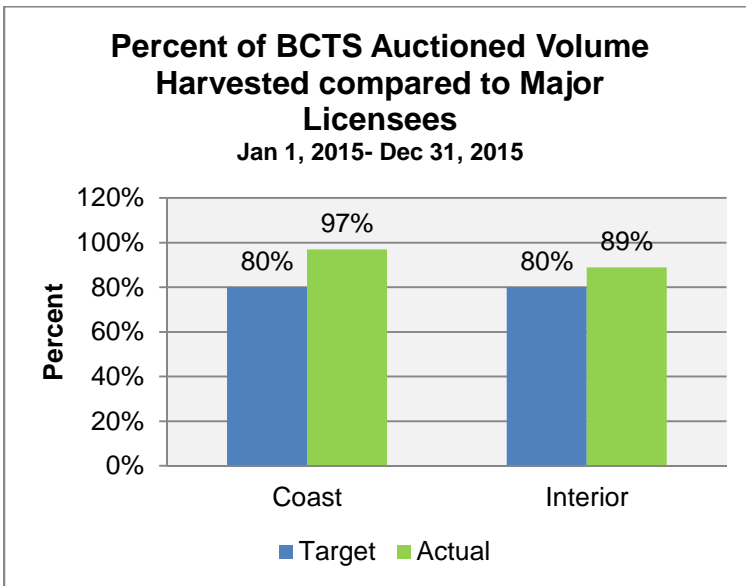
BCTS auction volume as a percent of projected provincial harvest volume – Coast and Interior



As of December 31, 2015 BCTS had auctioned 15% of the actual timber harvest on the Coast and 26% in the Interior. BCTS is currently projecting to auction 18% of the volume by yearend on the Coast and 25% in the Interior.

GOAL: PROVIDING CREDIBLE DATA FOR MPS

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



BCTS must develop and auction a representative volume of timber sales to provide statistically credible data to the Market Pricing System. This data is used to establish market-based stumpage rates.

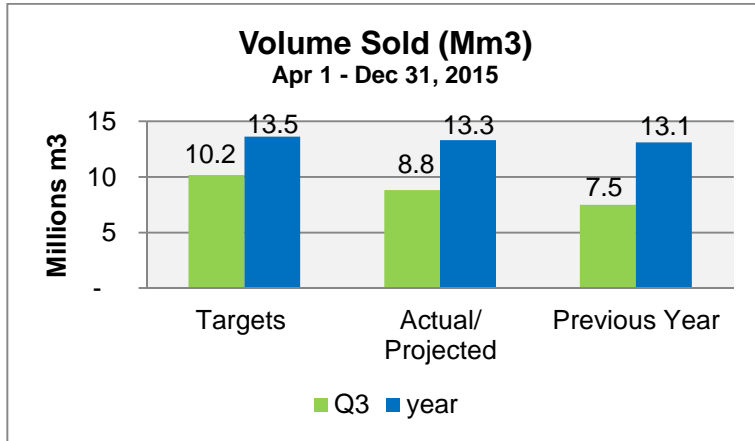
For the year ending Dec 31st, 2015, the BCTS auction volume harvested was within 5 percentage points of the Major Licensee harvest volume by species and grade more than 80% of the time. This indicates good representation of industry harvest volume by BCTS.

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

- BCTS is implementing a Data Quality Management System to ensure that its data is complete, accurate, and reliable. The quality management system will be applied to all data supporting MPS, and Financial and Performance reporting.

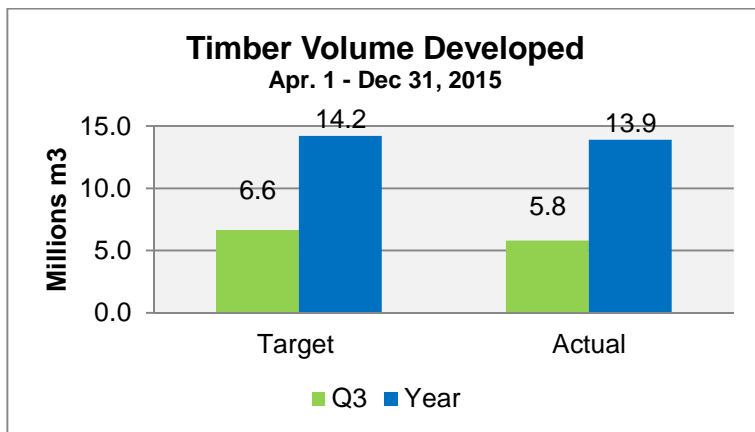
OBJECTIVE 1: SELLING THE APPORTIONMENT

Timber Volume Sold



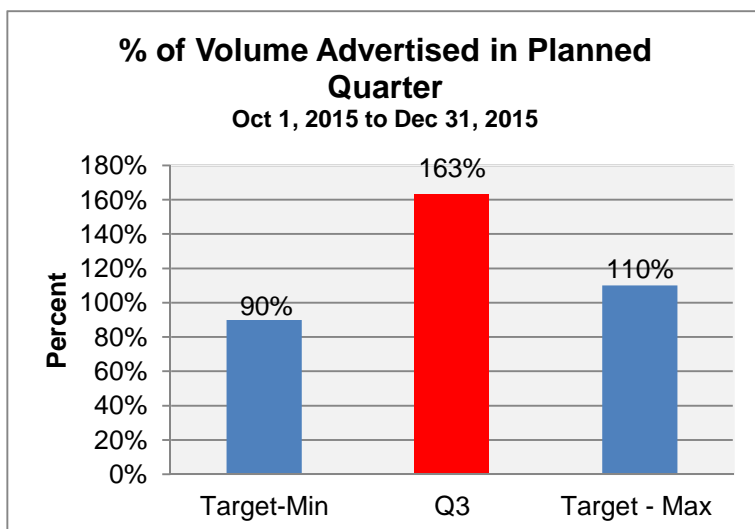
Timber volume sold is a key measure that BCTS is selling its apportionment over the business cycle. By the end of the third quarter BCTS had sold and 15% more than the prior year but 16% less timber than its target. Operational issues continued to delay the sale of a number licences which have been rescheduled to the 4th quarter. BCTS is projecting to substantially achieve its volume sold target by year end. BCTS is planning to sell 1045% of the rationalized annual apportionment of 12.8Mm3.

Develop sufficient timber to maximise timber volume offered and sold



BCTS develops timber for future auctions in order to have sufficient inventory to achieve its targets. As of December 31st BCTS was 12% behind target due to operational delays and capacity issues. Despite this, BCTS is projecting to substantially achieve its production target by the end of the fiscal year.

The volume of timber supplied to the market is reliable



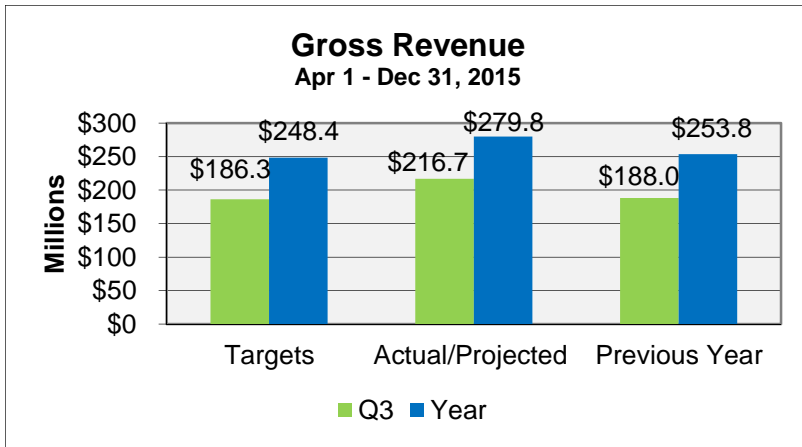
Timber volume advertised in the quarter planned is an indicator of the reliability of timber supply and the reliability of BCTS' Sales Schedules. In the third quarter, only 3 of 12 business areas advertised as planned. Three business area under achieved their targets due to operational issues. Six business areas over achieved their planned sales targets making up for short falls in sales in the first two quarters.

OBJECTIVE 2: REVENUE

Gross Revenue

BCTS over-achieved its gross revenue target in the first nine months due to higher than expected prices. Gross revenue was 16% over target and a 15% increase from the prior year.

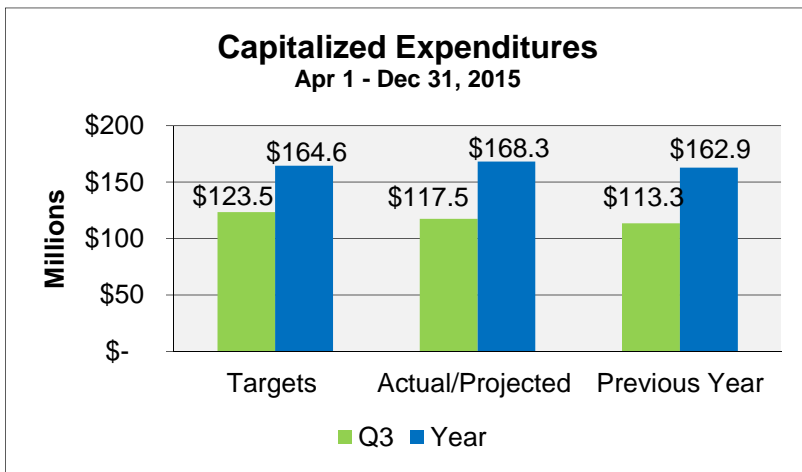
BCTS is projecting to continue to realise higher prices and to exceed its target gross revenue for the year by \$31.4 million.



Less: Capitalized Expenditures

Capitalized expenditures for the nine months were \$4.2 million more than the previous year but \$6 million less than the target.

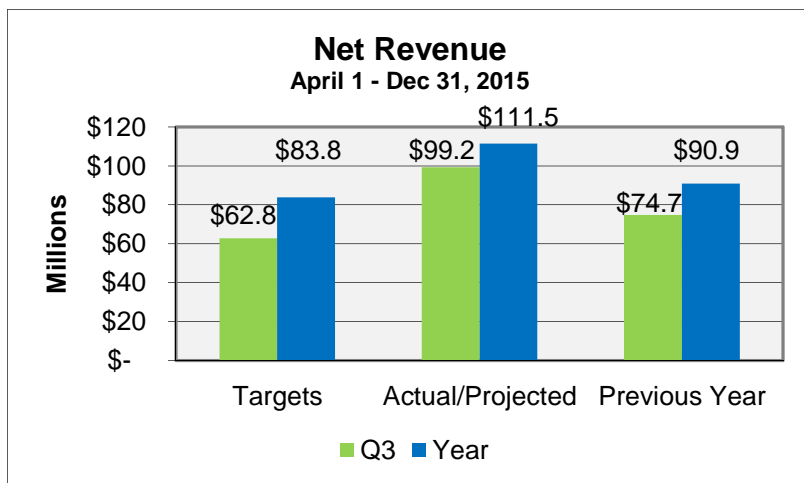
BCTS is projecting to over expend by \$3.7 million due to increased road maintenance and higher than expected service agreement and shared costs.



Equals: Net Revenue

Due to the increased revenues BCTS net revenue for nine months was \$36.4 million greater than the target a 33% increase over the prior year.

BCTS is projecting to exceed its net revenue target by 33% by year 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.

“Only those with Excellent Processes and Excellent People will truly excel”.

To achieve this continuous improvement BC Timber Sales and its people are committed to continuously learn, innovate, and lead through change in the pursuit of excellence. BCTS has embraced **Lean** as the next step in continuous improvement.

Pursue Effective Relationships

- A number of disposition agreements and business service agreements across the province, enabled through *Bill 25 – Forests, Lands and Natural Resource Operations Statutes Amendment Act* are in discussion and negotiation. Other forms of business agreement continue to fulfill the goals of BCTS’ business relationships, in keeping with the Business Relationships Strategy. Our existing and future partners include First Nations and community tenure holders and other government agencies.
- BCTS Business Areas plan to hire up to 11 forestry students for a 4-month term during the summer of 2016, through a joint program with the Ministry’s First Nations Relations Branch and other government agencies and the BC First Nations Forestry Council. This is in support of the students accepted into the BC First Nations Forestry Training Program. These students, who are being mentored through their time in school and at work, obtain valuable forestry field experience and are a positive experience for students and mentors. The program assists BCTS with our goal of building capacity for First Nations in the forest sector, and fills a need for qualified forest professionals for years to come.

Pursue excellence in people

- BCTS advertised for the first intake of six Forest Technologist Entry Level Program participants this quarter. Recruitment to the positions will occur in the next quarter, and the participants will start work with BCTS in the spring of 2016.
- The BCTS People Practices Working Group held a planning meeting to establish the organization’s people priorities for the next year. A key focus will be creating a Developmental Opportunities program framework for BCTS staff.

Pursue excellence in operations, practices and processes

- Lean is a business improvement philosophy that focuses on fostering and enabling a continual improvement culture by encouraging efficiency through the elimination of unnecessary rules, processes and non-essential steps. BCTS completed three improvement workshops in the third quarter, the silviculture liability project and two of the workshops were part of the Northern Lean portfolio, which focused on identifying opportunities to standardize the process between BCTS Offices.

APPENDIX 1 - OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1st to Dec 31st, 2015

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) | 10.7 | 10.3 | 1.5 | 4.5 | 4.3 |
| Less: No Bid Sales/No Sale | (0.6) | (1.3) | (0.1) | (0.9) | (0.3) |
| Less: Timing Variance (note 1) | 0.0 | (0.5) | (0.0) | (0.3) | (0.2) |
| Plus: YE Timing Variance | 0.0 | 0.2 | 0.1 | 0.1 | 0.0 |
| | | | | | |
| Volume Sold (Mm3) | 10.1 | 8.7 | 1.5 | 3.4 | 3.8 |
| | | | | | |
| Volume Harvested (Mm3) | 8.9 | 8.2 | 1.7 | 2.8 | 3.7 |
| DELIVERABLES | | | | | |
| Roads (km constructed) | 211 | 85 | 11 | 7 | 67 |
| Bridges (number installed) | 144 | 55 | 37 | 5 | 13 |
| Deactivation (km deactivated) | 277 | 154 | 13 | 53 | 88 |
| Site Prep (Ha) | 6,835 | 5,224 | 241 | 51 | 4,932 |
| Planting (Millions of seedlings planted) | 35.5 | 36.8 | 2.5 | 18.5 | 15.8 |

| Lump Sum Timber Sale Licences | Number (TSL) | Volume (Mm3) |
|-------------------------------|--------------|--------------|
| • Advertised | 140 | 4.38 |
| • Less: No Bid/No Sale | (28) | (0.74) |
| • Total Sold | 112 | 3.64 |

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

APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2015 – Dec 31, 2015

| | 2015/16 First quarter (Millions) | 2015/16 Second quarter (Millions) | 2015/16 Third quarter (Millions) |
|---|---|--|---|
| Revenue from External Sources | \$45.8 | \$83.8 | \$87.1 |
| GROSS REVENUE | \$45.8 | \$83.8 | \$87.1 |
| Capitalized Expenses: | | | |
| Cost of Timber Inventory Harvested | | | |
| Administration / Salaries | \$3.5 | \$6.9 | \$6.5 |
| Planning & Sales | \$4.1 | \$9.8 | \$9.3 |
| Access - Amortization | \$7.0 | \$6.7 | \$6.9 |
| Sub-Total Cost of Timber Inventory Harvested | (\$14.6) | (\$23.4) | (\$22.7) |
| Other Costs | | | |
| Silviculture Liability Expense | \$10.0 | \$10.0 | \$9.9 |
| Road & Bridge Maintenance | \$1.4 | \$4.1 | \$3.3 |
| Road Deactivation | \$0.0 | \$0.0 | \$0.0 |
| Harvest Conformance | \$0.0 | \$0.1 | \$0.2 |
| Operational & Administrative Overhead | \$5.7 | \$6.4 | \$6.2 |
| Land Base Investment/ Forest For Tomorrow (FFT) | \$1.0 | \$2.4 | \$1.4 |
| Land Base Investment/ FFT Recoveries | (\$1.0) | (\$2.7) | (\$1.6) |
| Sub-Total Other Costs | (\$17.1) | (\$20.3) | (\$19.4) |
| NET REVENUE/(LOSS) | <u>\$ 14.1</u> | <u>\$ 40.1</u> | <u>\$ 45.0</u> |

| Selected Balance Sheet Items | 2015/16 First Quarter | 2015-16 Second Quarter | 2015/16 Third Quarter |
|--|--------------------------------------|---------------------------------------|--------------------------------------|
| | (Millions) | (Millions) | (Millions) |
| Silviculture Liability | \$ 108.2 | \$ 104.6 | \$109.6 |
| Inventory Value of Developed Timber | | | |
| Timber Inventory – Opening Balance | \$131.2 | \$133.0 | \$134.7 |
| Timber Developed | \$ 9.4 | \$18.4 | \$ 19.9 |
| Timber Available for Sale | \$140.6 | \$151.4 | \$154.6 |
| Cost of Timber Inventory Harvested | (\$ 7.6) | (\$16.7) | (\$ 15.8) |
| Timber Inventory – Closing Balance | \$133.0 | \$134.7 | \$138.8 |
| Roads | | | |
| Book Value | \$739.2 | \$749.0 | \$763.0 |
| Accumulated Amortization | (\$493.7) | (\$500.4) | (\$507.3) |
| Net Book Value | \$245.5 | \$248.6 | \$255.7 |
| Deactivation Liability | \$ 7.8 | \$ 7.4 | \$ 7.5 |
| Seed Inventory | \$ 21.8 | \$21.8 | \$ 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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