B.C. TIMBER SALES

QUARTER PERFORMANCE REPORT

April 1, 2020 to December 31, 2020

Reconciliation • Sustainable Resources • Economic Prosperity • Business Excellence

BCTS
BC Timber Sales

BRITISH COLUMBIA
Ministry of Forests, Lands, Natural Resource Operations and Rural Development

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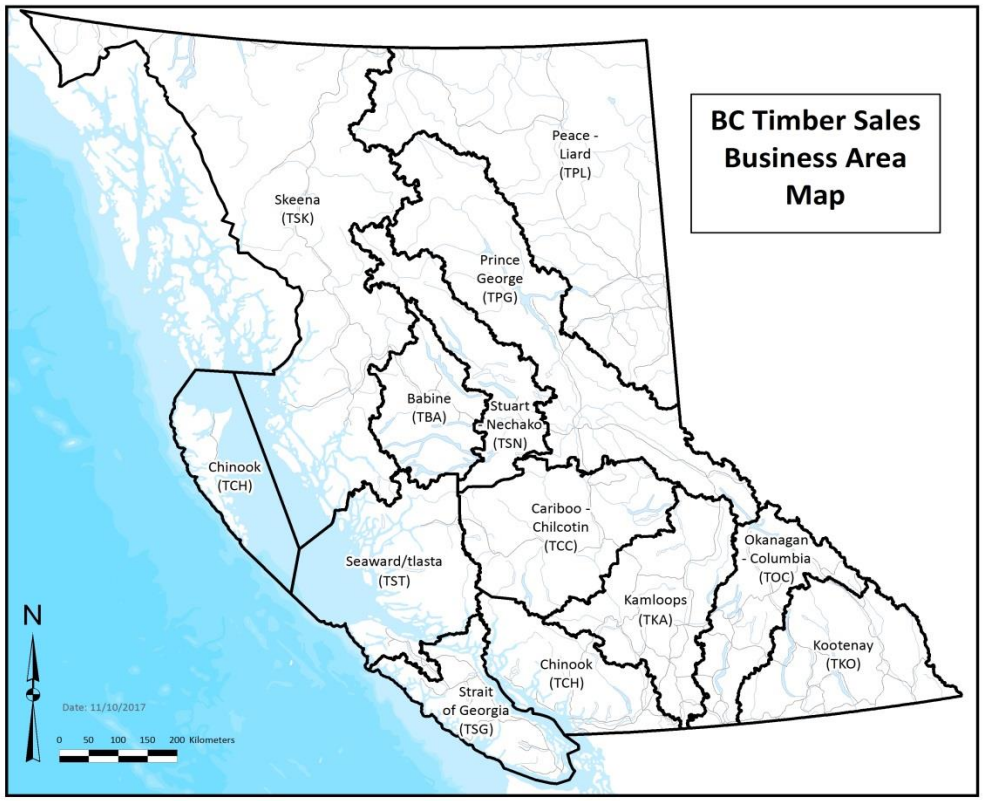
BC TIMBER SALES AREA MAP

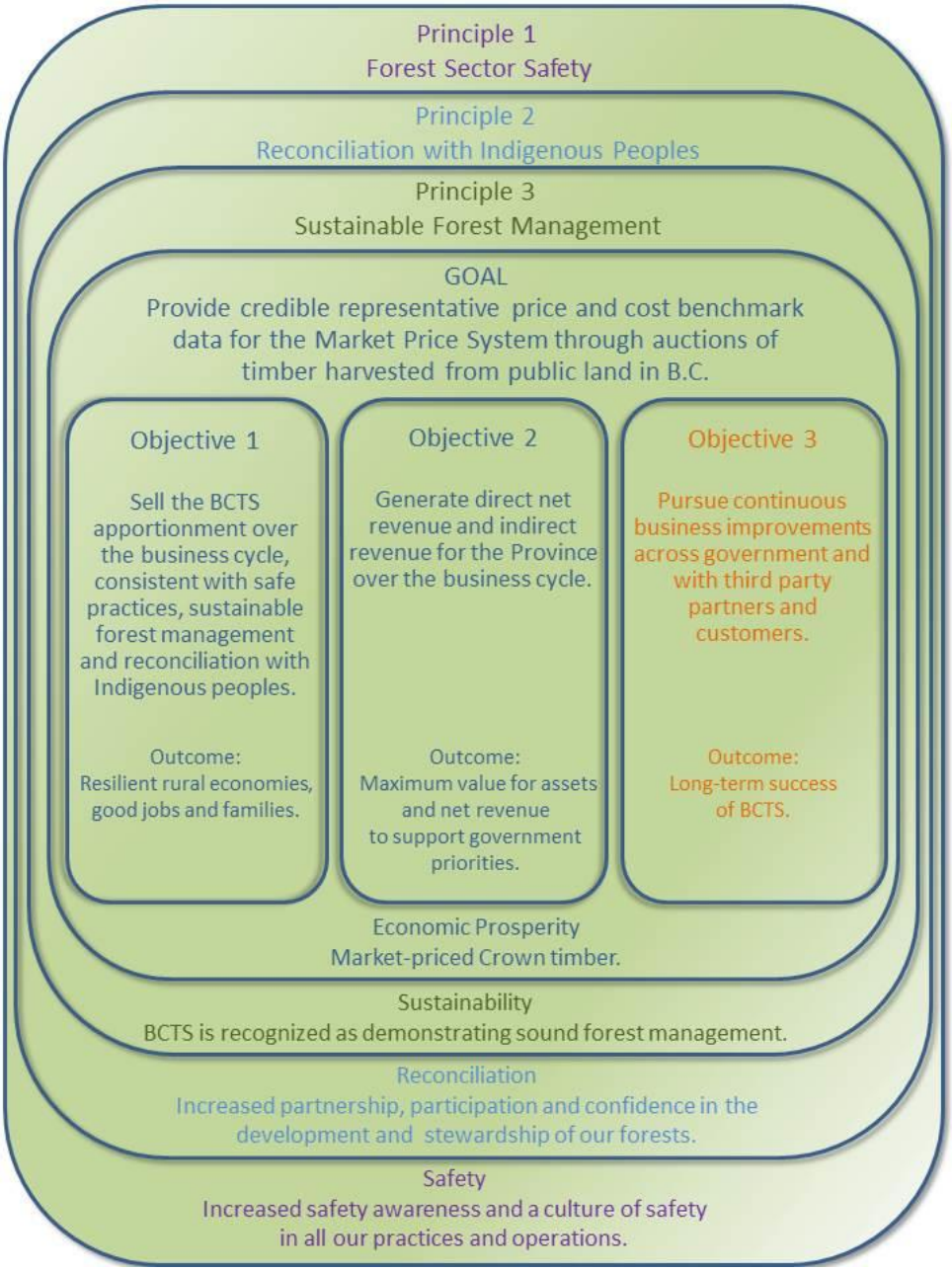


INTRODUCTION

BC Timber Sales (BCTS) presents its third quarter performance report for 2020/21. Quarterly performance reports are a key part of the BCTS Performance Management and Accountability Framework.

Our Mission

Committed to pursuing ***excellence*** in all aspects of our business, maintaining ***effective relations*** and focusing on ***results***, BC Timber Sales generates ***economic prosperity*** for all British Columbians through the ***safe, sustainable,*** and ***reliable*** development and auction of Crown timber and by playing a pivotal role in the ministry's reforestation strategies.



QUARTERLY PERFORMANCE HIGHLIGHTS

Overall Performance: Summary of Highlights

The downturn in the forest sector continues to impact performance. As well, wildlife issues, reconciliation activities, and the COVID-19 pandemic have adversely impacted operations.

As a result, some key performance indicators, including Timber Volume Sold were not achieved during the quarter. Annual performance will also be adversely impacted.

Forest Sector Safety

BCTS conducts annual audits of our Safety Program in order to maintain our SAFE Company certification. An external certification audit has been completed, and the audit report has been submitted to the BC Forest Safety Council for review and approval. Once the audit report is approved, an audit action plan will be developed.

The annual management review of the BCTS Safety Program has also been completed for 2020. The audit action plan, and the results of the of the management review, will be used to improve the BCTS Safety Program.

Reconciliation with Indigenous Peoples

BCTS continues to work in collaboration with the rest of the Ministry on its key priority of implementation of the *Declaration on the Rights of Indigenous Peoples Act* and the Truth and Reconciliation Commissions Calls to Action.

BCTS is advancing its journey along the path of Reconciliation with Indigenous Peoples through implementation of the Ministry's evolving Learning for Reconciliation strategy. Despite some challenges in the third quarter with face to face delivery of some content due to the COVID-19 pandemic, approximately 87% of BCTS staff have either completed, or are in the process of taking, reconciliation training. This training is focused on improving cultural awareness and understanding of Indigenous people's history, culture and legal framework.

BCTS also continues to work collaboratively with the BC First Nations Forestry Council, and FLNRORD Indigenous Relations Branch, on the implementation of the Indigenous Forestry Scholarship Program. In the third quarter of this year, BCTS was able to confirm work placement and mentoring opportunities for thirteen Indigenous students during the 2021 spring and summer months

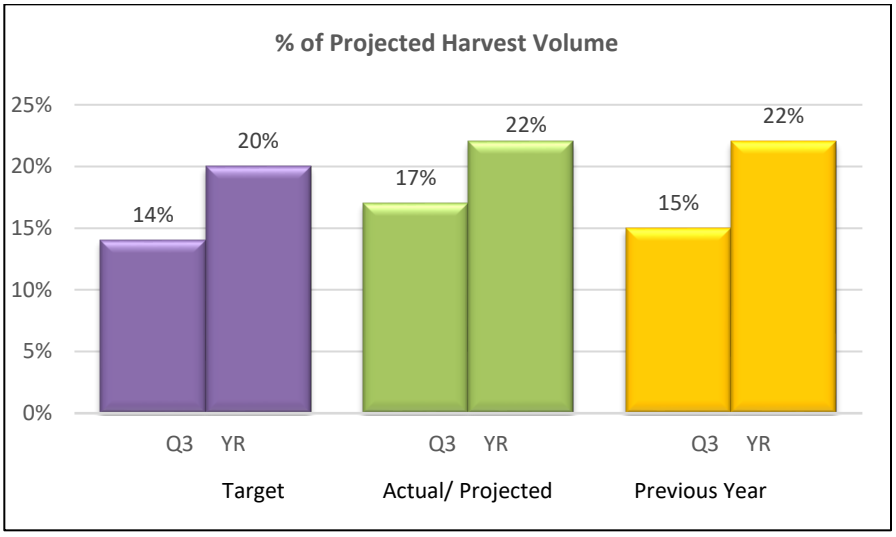
Sustainable Forest Management

BC Timber Sales manages 100% of its apportioned timber volume under the Sustainable Forestry Initiative forestry certification standard. Annual internal and external audits are conducted by independent third parties to verify that BCTS meets or exceeds standards of the certification program and legal requirements. In early 2021 BCTS will be advertising for an internal audit contractor.

BCTS remains an active member of the Western Canada SFI Implementation Committee and is participating in the SFI standard revision process

GOAL: PROVIDING CREDIBLE DATA FOR MPS

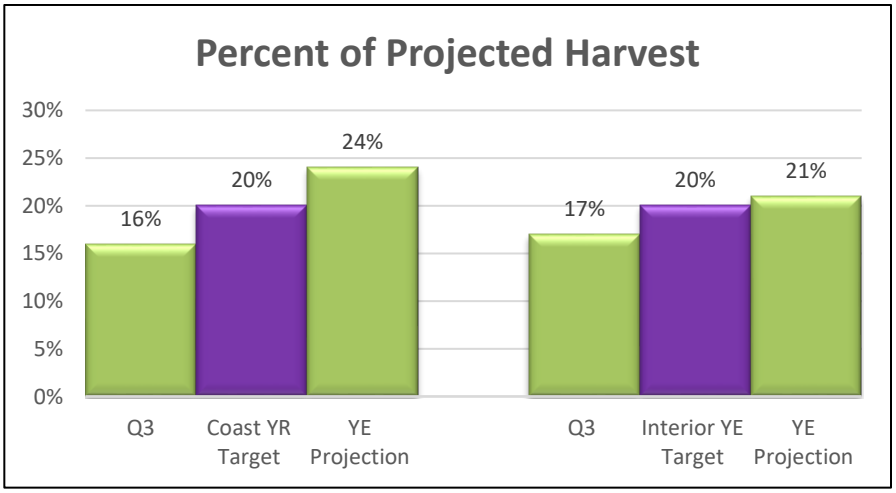
BCTS auction volume as a percent of projected provincial harvest volume



The volume of timber auctioned by BCTS must be at a level enough to support the Market-based Pricing System.

At the end of the quarter, BCTS had advertised 17% of the projected annual provincial harvest volume. BCTS is projecting to auction 22% of the projected provincial harvest volume by year end. This volume is enough support the Market Pricing System.

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

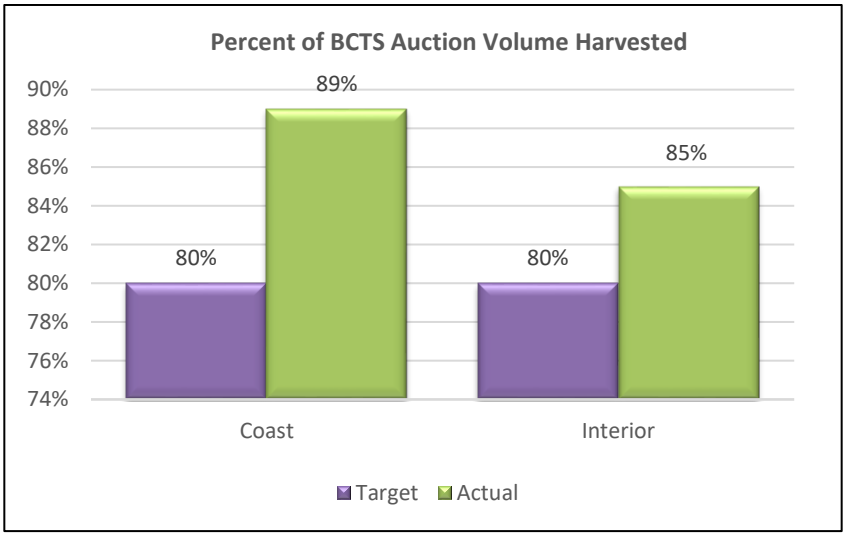


BCTS advertised 16% of the projected annual harvest volume on the Coast, and 17% in the Interior.

BCTS is projecting to auction 24% of the projected harvest volume on the Coast and 21% in the Interior by year end. This level of auction volume will be enough to support the Market Pricing System.

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 twelve-month period ending December 31, 2020, the BCTS auction volume harvested was within five (5) percentage points of the Major Licensee harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

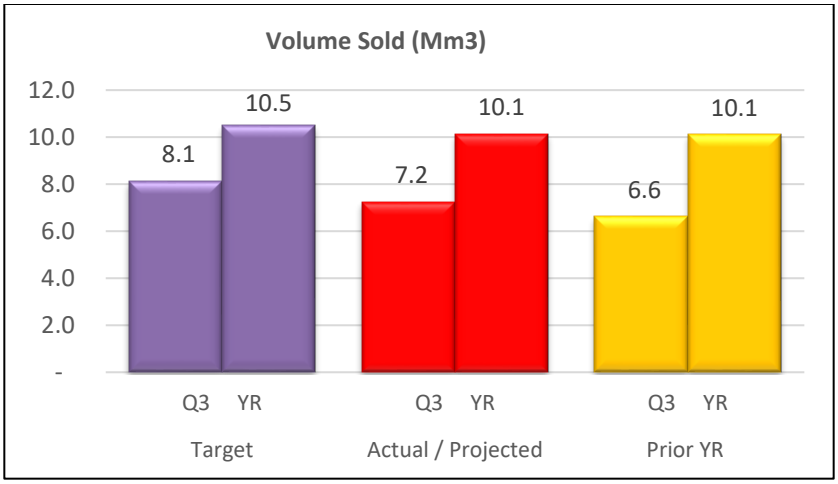
For BCTS to ensure it provides credible data to establish market-based stumpage rate it also must ensure its data is complete, accurate, and reliable.

- During the last fiscal year, BCTS began implementation of a data quality management system that is consistent with the International Standards Organization (ISO) 9001:2015 standard. Quarterly quality assurance reviews of key BCTS data sets are a part of the implementation. Target data quality standard is 98% conformance.

- The overall average performance rating for the third quarter was 93%. This was a small improvement over the second quarter results. BCTS is working to address those areas of the business where the quality performance indicator is below the required standard.

OBJECTIVE 1: SELLING THE APPORTIONMENT

Timber Volume Sold (Mm3)



Timber volume sold is a key measure that BCTS is selling its apportionment over the business cycle.

As of December 31st, BCTS sold 89% of target. Changing market conditions, reconciliation and a lack of inventory has impacted overall performance.

Because of these challenges BCTS is projecting that it will not achieve its volume sold target by year-end.

Quarter 3 Timber Volume Sold by Business Area

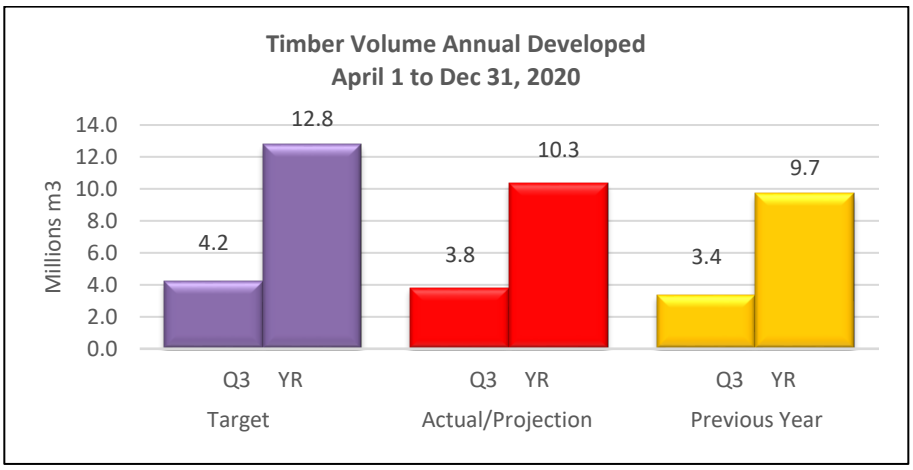
Volume Sold Coast	Target Mm³	Achieved Mm³	Variance Mm³	Variance %
CHINOOK	0.32	0.56	**0.24**	**75%**
SEAWARD	0.41	0.40	**-0.01**	**-2%**
STRAIT OF GEORGIA	0.84	0.56	**-0.28**	**-33%**
Coast Total	**1.57**	**1.5**	**-0.05**	**-3%**

Volume Sold North	Target Mm³	Achieved Mm³	Variance Mm³	Variance %
BABINE	0.64	0.47	**-0.17**	**-27%**
PEACE LIARD	0.67	0.66	**-0.01**	**-1%**
PRINCE GEORGE	0.81	0.53	**-0.28**	**-35%**
SKEENA	0.65	0.51	**-0.14**	**-22%**
STUART NECHAKO	0.75	0.59	**-0.16**	**-21%**
North Total	**3.52**	**2.76**	**-0.76**	**-22%**

Volume Sold South	Target Mm³	Achieved Mm³	Variance Mm³	Variance %
CARIBOO CHILCOTIN	0.58	0.60	**0.02**	**3%**
KAMLOOPS	0.73	0.63	**-0.10**	**-14%**
KOOTENAY	0.88	0.94	**0.06**	**7%**
OKANAGAN	0.83	0.79	**-0.04**	**-5%**
South Total	**3.02**	**2.98**	**-0.06**	**-2%**

OBJECTIVE 1: SELLING THE APPORTIONMENT

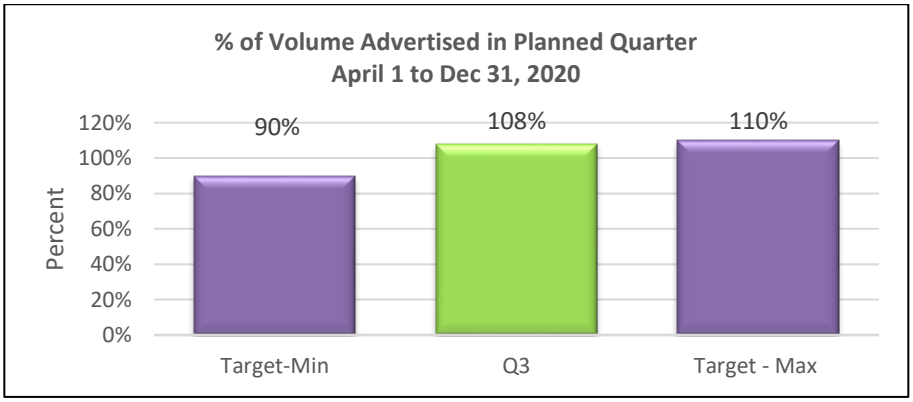
Develop sufficient timber to maximize timber volume offered and sold



BCTS develops timber in order to have enough inventory for future auctions. To date, BCTS has declared 3.8Mm^3 of timber ready to sell.

At this time, BCTS is projecting that it will fall short by 2.5Mm3 of its annual target by fiscal year end.

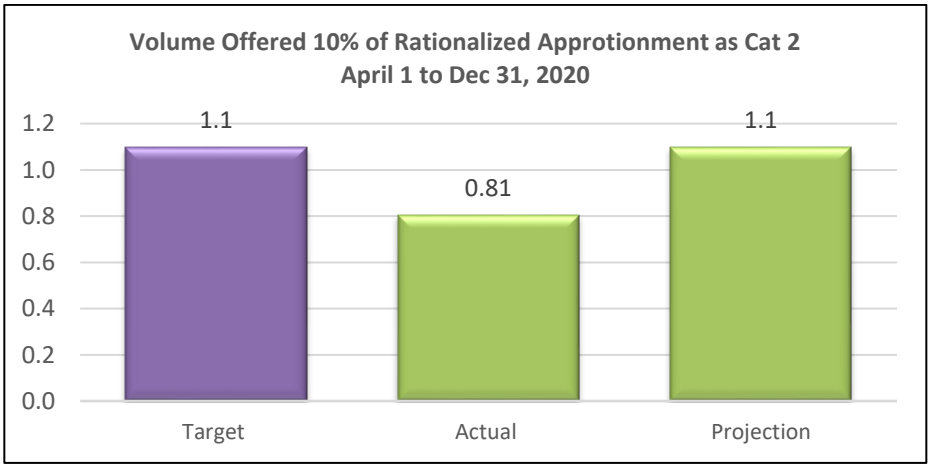
The volume of timber supplied to the market is reliable



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, BCTS achieved its target for reliability of timber supply.

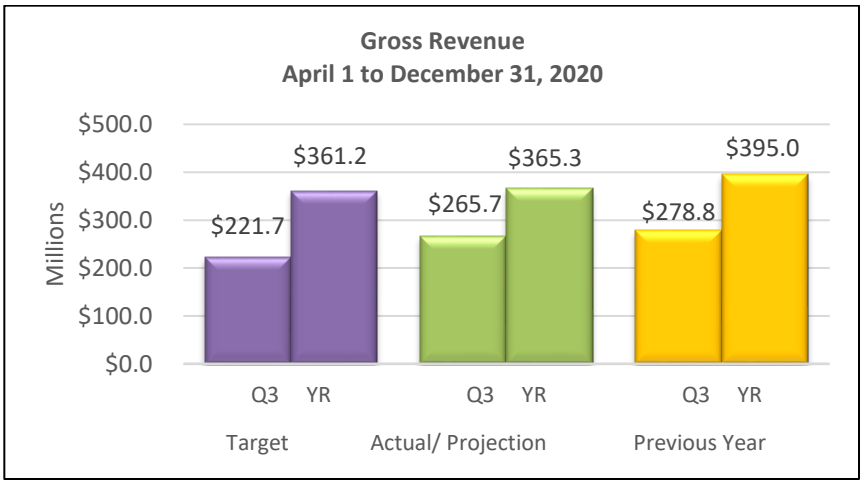
Offer 10% of Rationalized Apportionment as Category 2 Timber Sales



A key BCTS strategy is to provide open access to Crown timber for non-tenured or insufficiently tenured timber processing facilities. This promotes local employment and supports the value-added sector. In the first nine months BCTS offered 0.81Mm^3 to Category 2 registrants. BCTS is currently projecting to achieve target by year end.

OBJECTIVE 2: REVENUE

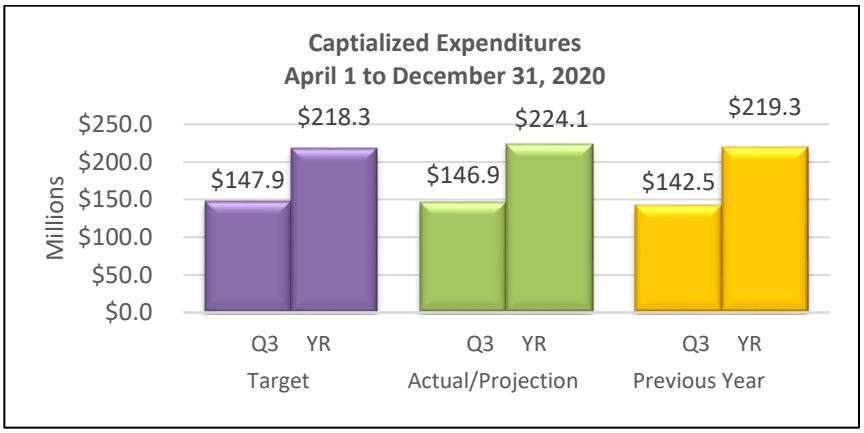
Gross Revenue



Gross revenue to date was $266M, $44.0M more than target. This was due to higher than expected billed rates paid for harvested timber during the period. Gross Revenue was $13M lower than the previous year mainly due a decline in the billed rates paid.

BCTS is expecting that billed rates will remain higher than expected and it will overachieve its annual gross revenue target.

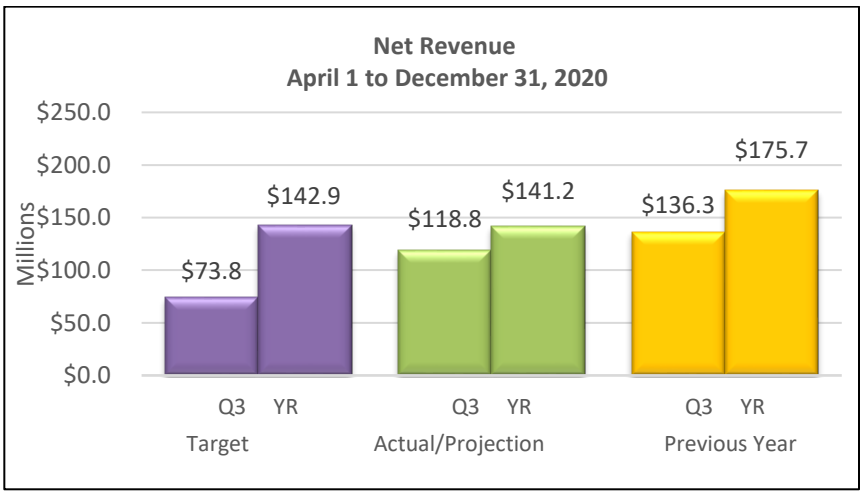
Less: Capitalized Expenditures



Capitalized expenditures for the third quarter were under budget by $1M.

At this time, BCTS is projecting that its annual expenditures for the year will exceed budget by $5.8M mainly due to additional costs for silviculture and the COVID-19 pandemic.

Equals: Net Revenue



Net Revenue for the period was $119M. It is $45M, or 61% greater than target and is attributable to the higher then expected gross revenues.

Currently, BCTS is projecting to substantially achieve its annual net revenue. The shortfall is due to unplanned expenses relating to the COVID-19 pandemic.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

To effectively realize its mission, goal and objectives, 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 excellence in people

The Forest Technologist Entry Level Program (FTELP) is a two-year training program based in Mackenzie that provides recent forestry graduates with the experience, and mentorship, needed to become an Association of BC Forestry Professional designated Registered Forest Technologist (RFT) or Registered Professional Forester.

The FTELP program also addresses recruitment and retention challenges in northern locations and creates opportunities for BCTS staff to gain supervisory experience. In Q3 the FTELP program completed recruiting in preparation for its sixth year.

Pursue excellence in operations, practices and processes

BCTS is continually looking for new ways to reduce waste and improve efficiency. BCTS applies the Lean philosophy to reduce waste in our business processes.

In the second quarter, BCTS undertook a virtual Lean workshop to improve and standardize the write-off process for cut blocks. The new block write-off process has been implemented in the third quarter across all BCTS offices and will reduce rework and increase the effectiveness of this process.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

Pursue Effective Relationships

BCTS is updating our external communications strategy. The updated strategy will reflect the unique challenges of staying connected during the pandemic and will explore opportunities to become more proactive in our communications. We continue to engage with forestry sector, industry, educational and community partners even during these challenging times.

In the third quarter, we have continued to engage with communities, industry partners, First Nations and stakeholders using virtual meetings to ensure that natural resource decisions support community needs and provincial priorities.

Through dedicated staff at the business area level, BCTS continues to pursue mutually beneficial effective business relationships with willing third-partner partners. In most cases, these partners have an Indigenous affiliation (i.e. companies owned in part or wholly by an Indigenous community).

Many of these business relationships are developed through the utilization of contracting services provided to BCTS, other examples include the co-development of memoranda of understanding (MOUs).

BCTS Disposition Agreements have also proven to be an effective means to enhance business relationships with (non-BCTS) forest tenure holders, whereby BCTS auctions our partners volume in return for negotiated financial and other benefits.

In the third quarter, BCTS has signed two BCTS disposition agreements creating new partnerships, with an accompanying harvest of approximately 84 000m^3.

APPENDIX 1 – OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1 to December 31, 2020

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm^3)	7.60	8.70	1.86	3.65	3.19
Add: Volume Advertised- CAT2 (Mm^3)	0.60	0.81	0.13	0.23	0.45
Less: No Bid Sales/No Sale	0.10	1.90	0.54	0.84	0.52
Less: Timing Variance (note 1)	0.00	0.42	0.00	0.28	0.14
Plus: YE Timing Variance	0.00	0.06	0.06	0.00	0.00
Volume Sold (Mm^3)	8.10	7.25	1.51	2.7	2.98
Volume Scaled (Harvested (Mm^3))	7.60	6.06	1.43	2.10	2.53
Lump Sum Timber Sale Licences			**Number (TSL)**		**Volume (Mm^3)**
• Advertised			80		1.966
• Less: No Bid/No Sale			(28)		(0.487)
• Total Sold			52		1.479

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

APPENDIX 2 – FINANCIAL PERFORMANCE

April 1 – December 31, 2020		2020/21 First Quarter (Millions) April 1- June 30		2020/21 Second Quarter (Millions) July1- Sep 30		2020/21 Third Quarter (Millions) Oct 1- Dec 31
Revenue from External Sources		**$52.00**		**$107.90**		**$105.80**
GROSS REVENUE		**$52.00**		**$107.90**		**$105.80**
Capitalized Expenses:						
Cost of Timber Inventory Harvested						
Administration / Salaries	($3.50)		($8.70)		($7.40)	
Planning & Sales	($4.70)		($13.20)		($14.60)	
Access – Amortization	($8.90)		($8.90)		($8.10)	
Sub-Total Cost of Timber Harvested & Amortization		**($17.10)**		**($30.80)**		**($30.10)**
Other Costs						
Silviculture Liability Expenses	($11.30)		($13.20)		($12.20)	
Road & Bridge Maintenance	($1.80)		($5.30)		($4.90)	
Non- BCTS Roads	($0.00)		($0.20)		($0.30)	
Harvest Conformance	($0.10)		($0.00)		($0.10)	
Operational & Administrative Overhead	($5.80)		($3.90)		($8.60)	
Land Base Investment / FFT Recoveries	$0.30		$1.00		$1.70	
Sub-Total Other Costs		**($18.70)**		**($21.60)**		**($24.40)**
NET REVENUE/(LOSS) before Covid-19 Costs		**$16.20**		**$55.50**		**$51.30**
Non-operating expenses: Covid-19 Costs		**($0.90)**		**($2.80)**		**($0.50)**
NET REVENUE/ (LOSS)		**$15.30**		**$52.70**		**$50.80**
Note: Results are Unaudited						

APPENDIX 2 – FINANCIAL PERFORMANCE

Selected Balance Sheet Items As at December 31st, 2020		2020/21 First Quarter (Millions)		2020/21 Second Quarter (Millions)		2020/21 Third Quarter (Millions)
Silviculture Liability		**$156.80**		**$144.60**		**$149.70**
Inventory Value of Developed Timber						
Timber Inventory – Opening Balance	$162.80		$165.70		$158.90	
Timber Developed	$11.10		$15.10		$27.30	
Timber Available for Sale	$173.90		$180.80		$186.20	
Cost of Timber Inventory Harvested	($8.20)		($21.90)		($22.00)	
Timber Inventory – Closing Balance		**$165.70**		**$158.90**		**$164.20**
Work-in-progress Inventory – Closing Balance		**$54.70**		**$61.90**		**$66.00**
Roads						
Book Value	$876.30		$888.50		$903.00	
Accumulated Amortization	($601.80)		($610.70)		($618.90)	
Net Book Value		**$274.50**		**$277.80**		**$284.10**
Deactivation Liability		**($10.80)**		**($10.90)**		**($10.60)**
Seed Inventory		**$18.40**		**$18.80**		**$19.10**
Note: Results are Unaudited						

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