



BCTS
BC Timber Sales

QUARTER PERFORMANCE REPORT

APRIL 1, 2021 – September 30, 2021



Safety • Reconciliation • Sustainable Resources • Economic Prosperity • Business Excellence



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BC TIMBER SALES AREA MAP



INTRODUCTION

BC Timber Sales (BCTS) presents its second quarter performance report for 2021/22. 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 public timber and by playing a pivotal role in the ministry's reforestation strategies.



QUARTERLY PERFORMANCE HIGHLIGHTS



OVERALL PERFORMANCE: SUMMARY OF HIGHLIGHTS

A severe wildfire season, wildlife issues and reconciliation activities are adversely impacting operations. As a result, some key performance indicators for Q2, including timber volume sold, were not achieved. Annual performances will likely also be adversely impacted.

FOREST SECTOR SAFETY

BCTS conducts annual audits of our safety program to maintain our SAFE Company certification. An internal maintenance audit is currently underway, and the audit report will be 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 initiated for 2021. The BCTS Safety Working Group (SWG) will use the audit action plan, the results of the of the management review and an annual review of safety incidents to develop a work plan to improve the BCTS safety program. Vehicle use is a leading cause of safety incidents, and the SWG is currently implementing improvements such as utilizing competency assessments to improve the effectiveness of driver training and improving training for trailering. The SWG is also preparing a video on Emergency Response Planning (ERP) and the transport of an injured worker. The video will share lessons learned resulting from a transport of an injured worker drill and will be made available to the natural resource sector.

RECONCILIATION WITH INDIGENOUS PEOPLES

BCTS works in collaboration with the rest of the Ministry on the Provinces' goal of meaningful reconciliation. As BCTS continues its journey along the path of reconciliation with Indigenous Peoples, we acknowledge the continuing devastating discoveries at former residential school sites throughout British Columbia and Canada and supported our employees in reflection and acknowledging Indigenous Peoples on the first National Day of Truth and Reconciliation on September 30. Despite continued pandemic-related challenges with face-to-face delivery of reconciliation-related learning in quarter two, approximately 88% 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 works collaboratively with the BC First Nations Forestry Council and the Ministry's Indigenous Relations Branch on the implementation of the Indigenous Forestry Scholarship Program. In the second quarter of this year, BCTS confirmed placement for nine students and intends to secure additional placements in quarter 3.

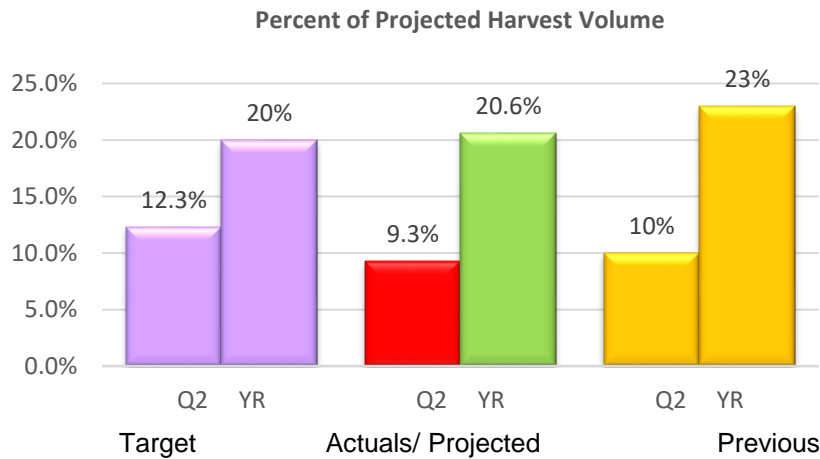
BCTS enters relationship building, collaborative management and disposition agreements with interested First Nations. These mutually beneficial agreements are based on the principles of reconciliation and may support capacity building, cooperative management and recognition of each parties' goals amongst other objectives. In quarter two negotiations continue three collaborative management agreements.

SUSTAINABLE FOREST MANAGEMENT.

BCTS manages 100% of its apportioned timber volume under the Sustainable Forestry Initiative (SFI) forest 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 all legal requirements. In the coming year, BCTS will be updating its certification program to meet the new 2022 SFI forest management standard. BCTS is an active member of the Western Canada SFI Implementation Committee and participated in the SFI standard revision process.

GOAL: PROVIDING CREDIBLE DATA FOR MARKET PRICING

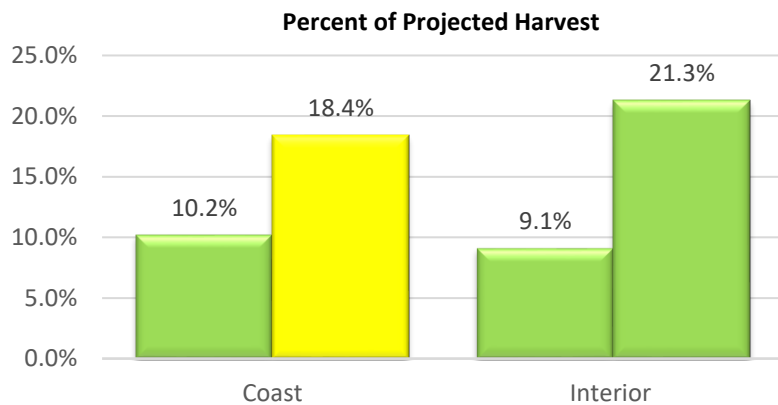
BCTS auction volume as a percent of projected provincial harvest volume



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

At the end of the quarter, BCTS had advertised 9.3% of the projected annual provincial harvest volume. BCTS is projecting to auction 20.6% of the projected provincial harvest volume by year-end. This volume is enough to support the Market Pricing System (MPS).

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

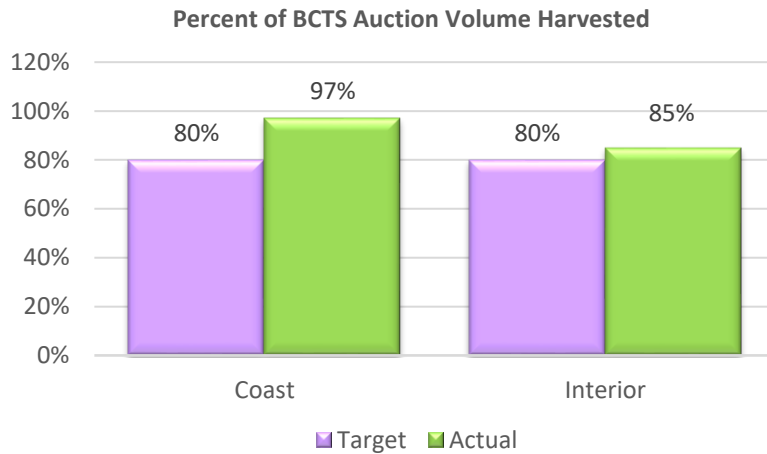


BCTS advertised 10.2% of the projected annual harvest volume on the Coast and 9.1% in the Interior.

BCTS is projecting to auction 18.4% of the projected harvest volume on the Coast and 21.3% 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 MARKET PRICING

The percent of BCTS timber volume sold is within five 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.

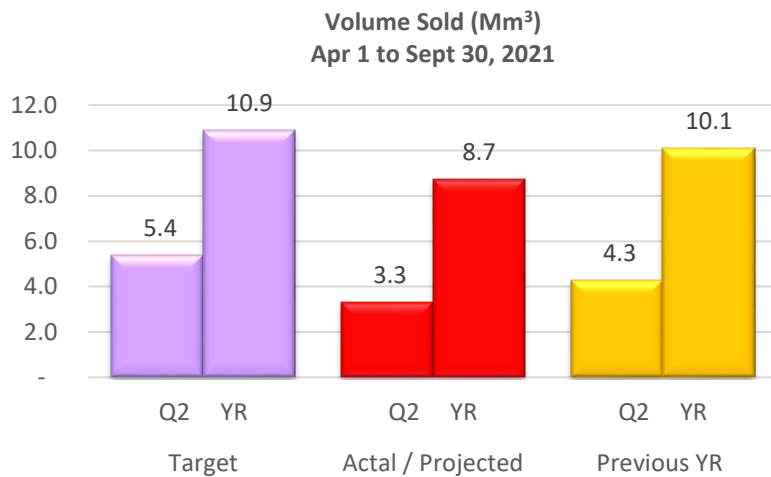
For the twelve-month period ending September 30, 2021, the BCTS auction volume harvested was within five percentage points of major licensees' harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

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

- BCTS is implementing 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 second quarter was 98%.

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 September 30, BCTS sold 61% of its Q2 target. The severe wildfire season, reconciliation activities and timber inventory constraints have impacted performance.

If these challenges don't improve, BCTS is projecting that it will not achieve its volume sold target for year-end.

Quarter 2 timber volume sold by business area

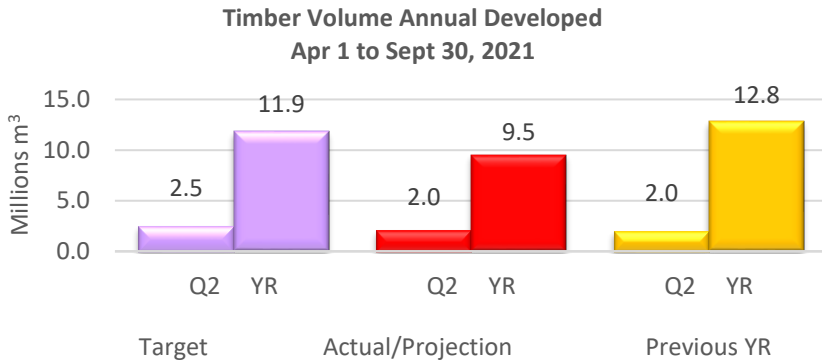
Volume Sold Coast	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CHINOOK	0.23	0.18	-0.05	-21%
SEAWARD	0.29	0.14	-0.15	-52%
STRAIT OF GEORGIA	0.63	0.46	-0.17	-27%
Coast Total	1.15	0.78	-0.37	-32%

Volume Sold North	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
BABINE	0.40	0.35	-0.05	-13%
PEACE LIARD	0.48	0.25	-0.23	-47%
PRINCE GEORGE	0.70	0.20	-0.50	-71%
SKEENA	0.49	0.07	-0.42	-86%
STUART NECHAKO	0.45	0.47	0.02	4%
North Total	2.52	1.34	-1.18	-47%

Volume Sold South	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CARIBOO CHILCOTIN	0.35	0.20	-0.15	-42%
KAMLOOPS	0.40	0.32	-0.08	-21%
KOOTENAY	0.53	0.50	-0.03	-5%
OKANAGAN	0.42	0.18	-0.24	-58%
South Total	1.70	1.20	-0.50	-29%

OBJECTIVE 1: SELLING THE APPORTIONMENT

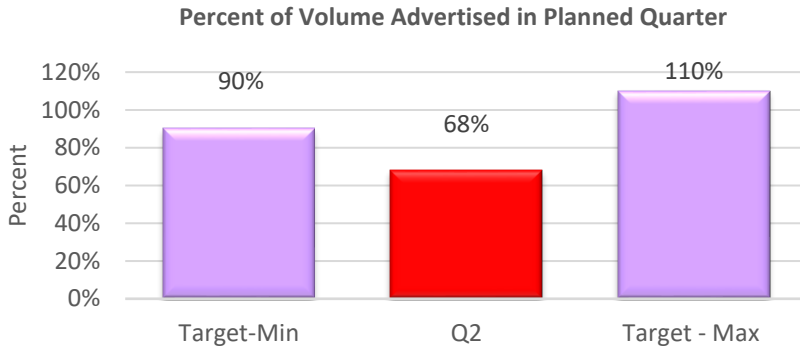
Develop sufficient timber to maximize timber volume offered and sold



BCTS develops timber to have enough inventory for future auctions. To date, BCTS has declared 2.0 Mm³ of timber ready to sell.

At this time, BCTS is projecting it will fall short of its annual target by 20% 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 second quarter, BCTS under achieved its target for reliability of timber supply. No bid sales, wildlife issues and consultation activities with Indigenous Peoples were contributing factors.

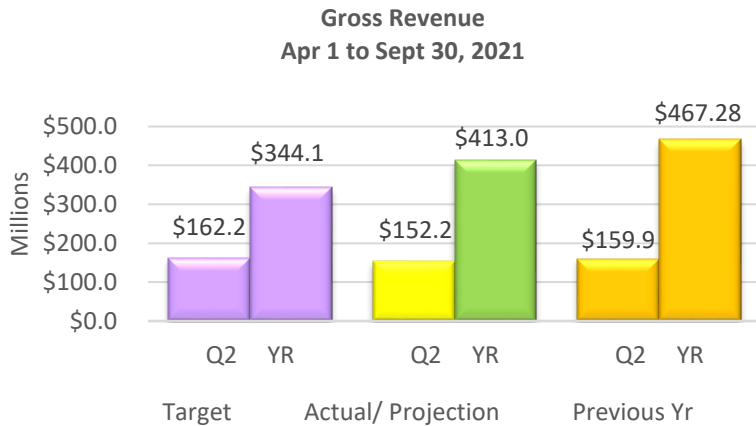
Offer 10% of rationalized apportionment as category 2 timber sales



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. As of the end of the second quarter BCTS has offered 44% of its annual target volume to Category 2 registrants. BCTS is currently projecting to achieve its annual target by year-end.

OBJECTIVE 2: GENERATING REVENUE

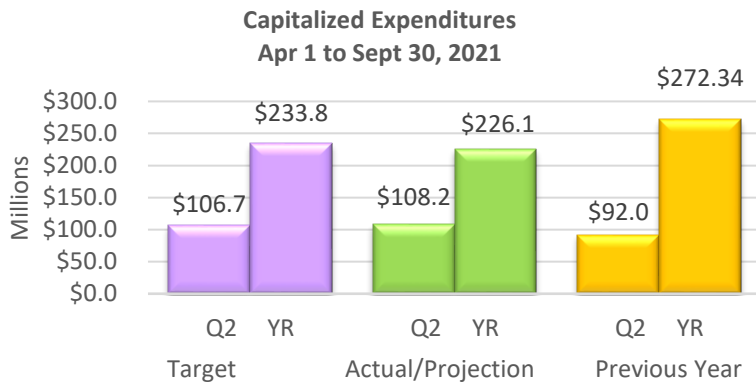
Gross revenue



Gross revenue to date was 94% of target and \$7.7M less than the previous year, mainly due to operational impacts of the severe wildfire season.

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

Less: capitalized expenditures

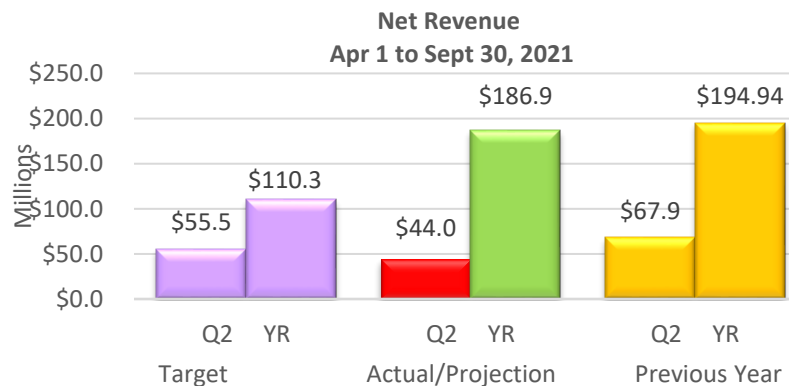


Capitalized expenditures for the quarter were over budget by \$1.5M due primary to COVID-related costs.

At this time, BCTS is projecting its annual expenditures for the year will be under budget by \$10M mainly due to the decreased harvest levels.

This projection does not yet include any potential losses due to the severe wildfires season.

Equals: net revenue



Net Revenue to date was \$11.5M, or 21% less than target.

As a result of the higher-than-expected billed rates BCTS is projecting to significantly overachieve its annual net revenue target.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

To effectively realize its mission, goal and objectives, and to deliver superior performance and make a distinct, 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 provincial government’s Work Environment Survey (WES) measures the health of the work environments within the B.C. Public Service. The survey gathers information about the work environment on issues employees identify as important and areas needing improvement with the goal of understanding and improving employee engagement. BCTS’ People Practices Working Group (PPWG) review the results of the survey and identify actions to address the findings within BCTS. This year the PPWG has identified the following as work plan goals: ongoing support for the supervisor’s community of practice, promotion of stay and exit interviews, and enhancing communication about resources available for stress, workload and mental health. In Q2, the PPWG has initiated a business improvement project to improve our hiring practices and reduce the amount of time required to fill vacant positions.

Pursue excellence in operations, practices and processes

BCTS is always looking for new ways to reduce waste and improve efficiency. BCTS applies the Lean philosophy to reduce waste in our business processes. In Q2, BCTS continued to implement a Lean project to standardize the reporting of our silviculture liability. Results of the workshop will clarify roles and responsibilities, improve the timeliness, accuracy and consistency of our silviculture liability reporting, and will ultimately result in less rework. We have also conducted face-to-face Lean training for the first time since the pandemic began. The Lean training utilized reduced occupancy and social distancing and generated several ideas for process improvements.

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 the forestry sector, industry and educational and community partners even during these challenging times. In Q2, we have continued to engage with communities, industry partners, First Nations and stakeholders using virtual meetings to ensure natural resource decisions support community needs and Provincial priorities.

Dedicated relations staff at the business area level continue to pursue mutually beneficial and effective business relationships with willing third-party 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 contracting services provided to BCTS. Other examples include the co-development of memoranda of understanding (MOUs) and collaborative management agreements (CMAs).



APPENDIX 1 – OUTPUTS

Key year-to-date results by Coast and Interior areas April 1 to September 30, 2021

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm³)	5.19	3.87	1.06	1.47	1.34
Add: Volume Advertised CAT2 (Mm ³)	0.44	0.44	0.07	0.15	0.22
Less: No Bid Sales/No Sale	0.27	0.78	0.25	0.24	0.29
Less: Timing Variance (note 1)	0.00	0.23	0.10	0.06	0.07
Plus: YE Timing Variance	0.00	0.02	0.00	0.02	0.00
Volume Sold (Mm³)	5.37	3.32	0.78	1.34	1.20
Volume Scaled (Harvested (Mm³))	3.66	2.90	0.91	0.81	1.18
Lump Sum Timber Sale Licences			Number (TSL)		Volume (Mm³)
• Advertised			43		0.84
• Less: No Bid/No Sale			(14)		(0.25)
• Total Sold			29		0.60

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

APPENDIX 2

April 1 – September 30, 2021		2021/22 First Quarter (Millions) April 1- June 30	2021/22 Second Quarter (Millions) July 1- Sept 30
Revenue from External Sources		\$77.411	\$74.758
GROSS REVENUE		\$77.411	\$74.758
Capitalized Expenses:			
Cost of Timber Inventory Harvested			
Administration / Salaries	(\$4.354)		(\$9.250)
Planning and Sales	(\$10.114)		(\$13.027)
Access – Amortization	(\$9.545)		(\$9.468)
Sub-Total Cost of Timber Harvested & Amortization		(\$24.013)	(\$31.745)
Other Costs			
Silviculture Liability Expenses	(\$15.000)		(\$15.000)
Road and Bridge Maintenance	(\$1.490)		(\$4.000)
Non-BCTS Roads	(\$0.315)		(\$0.472)
Harvest Conformance	(\$0.243)		(\$0.126)
Operational and Administrative Overhead	(\$7.029)		(\$8.536)
Land Base Investment / FFT Recoveries /Sec.108	\$1.389		\$0.465
Sub-Total Other Costs		(\$22.688)	(\$27.417)
NET REVENUE/(LOSS) Before Covid-19 Costs		\$30.710	\$15.597
Non-Operating Expenses: Covid-19 Costs		(\$1.020)	(\$1.333)
NET REVENUE/ (LOSS)		\$29.690	\$14.264
Note: Results are unaudited			

Selected Balance Sheet Items As at September 30, 2021		2021/22 First Quarter (Millions)	2021/22 Second Quarter (Millions)
Silviculture Liability		(\$184.058)	(\$175.339)
Inventory Value of Developed Timber:			
Timber Inventory – Opening Balance	\$141.075		\$136.861
Timber Developed	<u>\$10.254</u>		<u>\$15.495</u>
Timber Available for Sale	\$151.329		\$152.356
Cost of Timber Inventory Harvested	<u>(\$14.468)</u>		<u>(\$22.277)</u>
Timber Inventory – Closing Balance		\$136.861	\$130.079
Work-In-Progress Inventory – Closing Balance		\$61.717	\$65.505
Roads:			
Book Value	\$922.289		\$923.605
Accumulated Amortization	<u>(\$626.514)</u>		<u>(\$635.982)</u>
Net Book Value		\$284.975	\$287.623
Deactivation Liability		(\$15.590)	(\$15.800)
Seed Inventory:		\$18.976	\$19.007
Note: Results are Unaudited			



BCTS

BC Timber Sales



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

