



QUARTER PERFORMANCE REPORT

APRIL 1, 2021 – December 31, 2021



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



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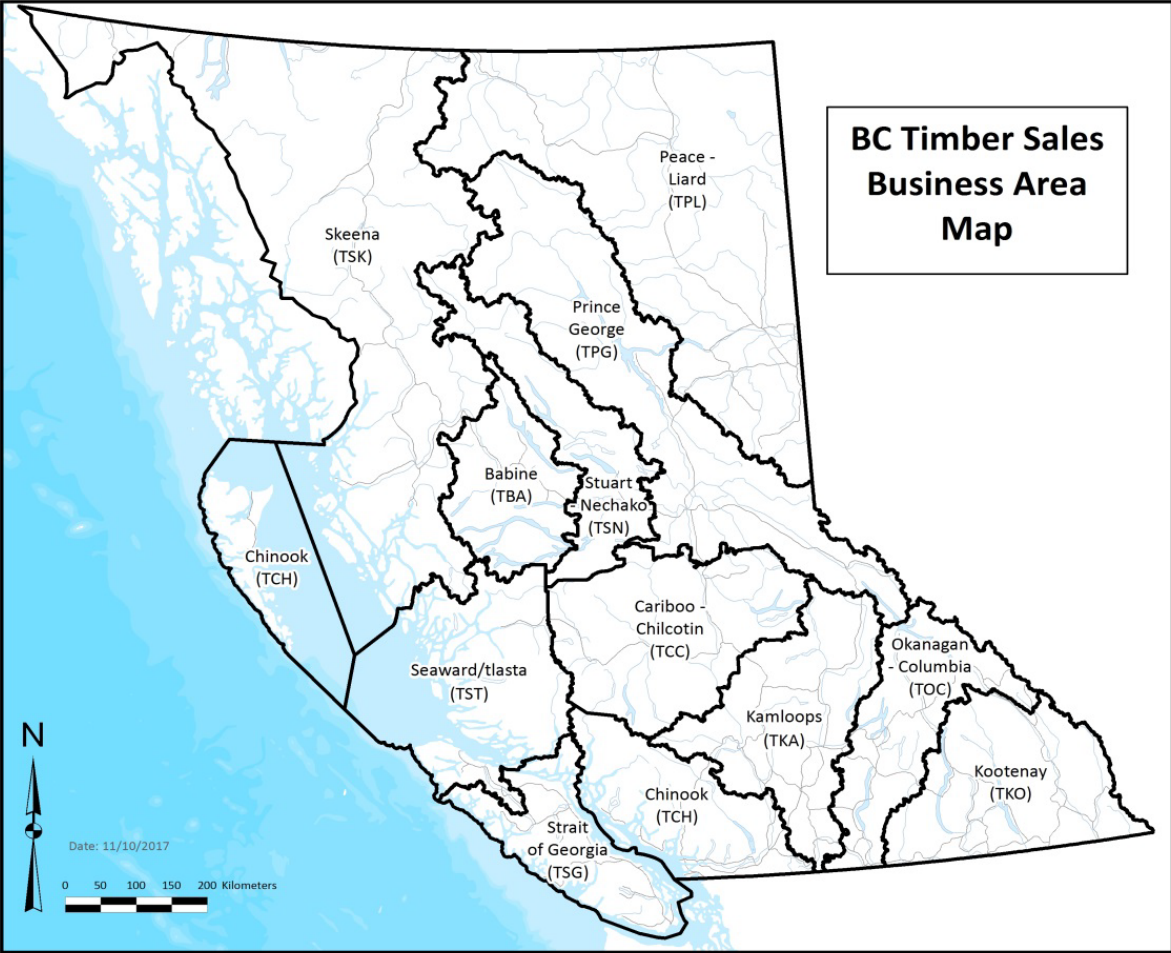
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BC TIMBER SALES AREA MAP

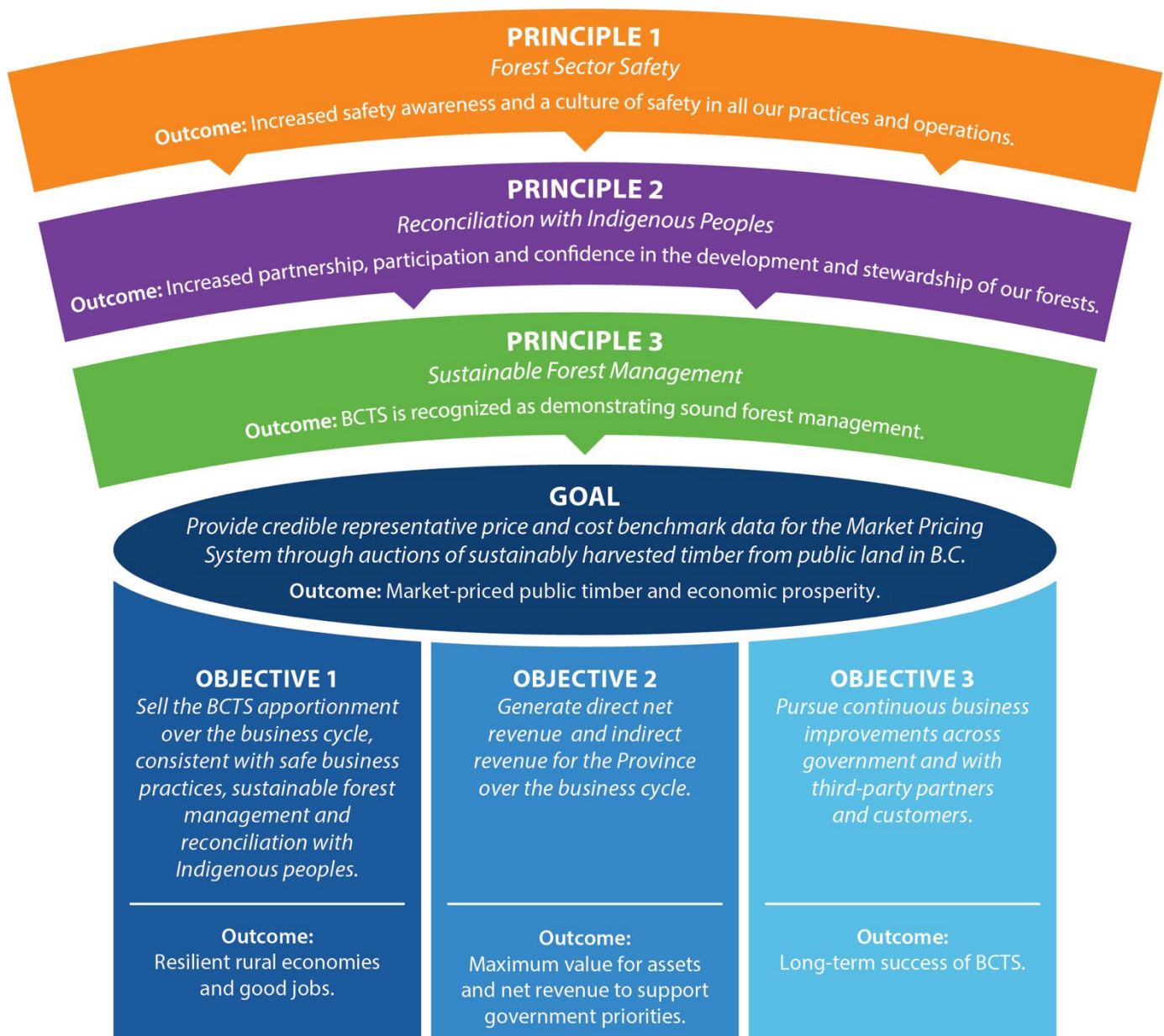


INTRODUCTION

BC Timber Sales (BCTS) presents its third 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

Performance has been severely impacted by the implementation of the government's Old Growth Strategy and the floods in late 2021. As a result, most key performance indicators for Q3 (including timber volume sold, timber advertised, and timber developed) were not achieved. Annual performances will also be adversely impacted.

FOREST SECTOR SAFETY

The 2021 internal maintenance safety audit results have been reviewed and approved by the BCFSC. The final audit score for BCTS was 96%. Some of the strengths that were identified include: a mature and robust safety program; a strong safety culture throughout the organization that can adapt quickly to new hazards and concerns (such as COVID-19); and a good overall safety performance with low incident rates.

Some potential opportunities for improvement include: the development of a provincial standardized preventative maintenance program to track, schedule and record maintenance, servicing, and inspection activities of vehicles and equipment; and the consolidation of web-based safety policies and procedures to make them more easily accessed by new employees and supervisors.

The BCTS Safety Working Group will review the audit findings, develop an audit action plan, and incorporate the audit actions into their annual work plan.

RECONCILIATION WITH INDIGENOUS PEOPLES

BCTS continues to work in close collaboration with Ministry staff on the province's goal of meaningful reconciliation and implementation of the Declaration Act. As BCTS continues its journey along the path of Reconciliation with Indigenous Peoples, we acknowledge the continuing impacts that the 2021 wildfires, the pandemic, and the November 2021 floods have had (and are continuing to have) on Indigenous Communities.

Despite continued pandemic-related challenges with face-to-face delivery of Reconciliation-related learning in quarter three, virtual training opportunities have been offered in quarter three, and approximately 88% of BCTS staff have either completed, or are in the process of taking, reconciliation training.

BCTS also works 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 confirmed placement for 10 students, and we anticipate offering mentored employment for a total of 13 or 14 students in quarter 4. BCTS engages with interested Indigenous Nations in relationship building, collaborative management, and disposition agreement arrangements.

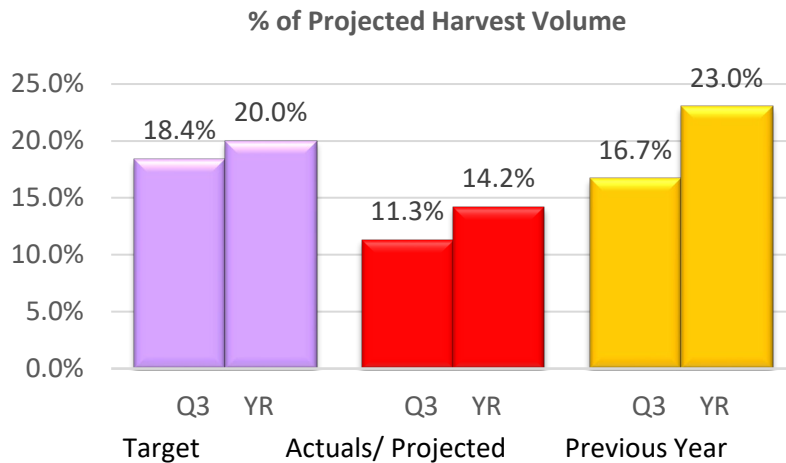
SUSTAINABLE FOREST MANAGEMENT.

BCTS manages 100% of its apportioned timber volume under the Sustainable Forestry Initiative (SFI) Forest Management 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 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.

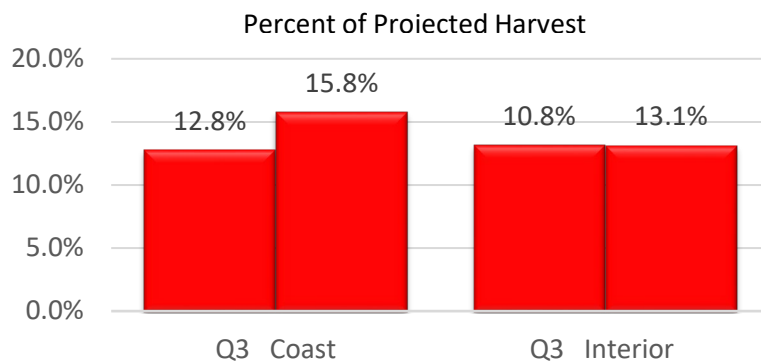
GOAL: PROVIDING CREDIBLE DATA FOR MARKET PRICING

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 (MPS). At the end of the quarter, BCTS had advertised 11.3% of the projected annual provincial harvest volume. BCTS is projecting to auction 14.2% of the projected provincial harvest volume by year-end. This volume offered is less than desired and increases risk to the MPS.

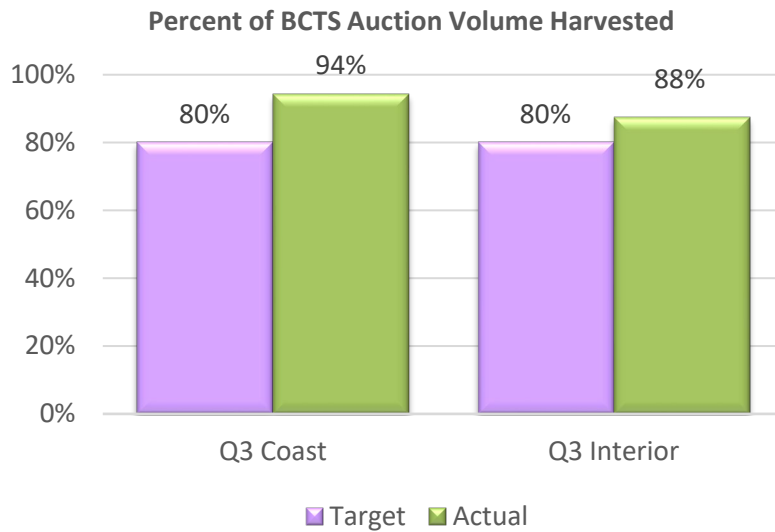
BCTS auction volume as a percent of projected provincial harvest volume – Coast and Interior



BCTS advertised 12.8% of the projected annual harvest volume on the Coast and 10.8% in the Interior. BCTS is projecting to auction 15.8% of the projected harvest volume on the Coast and 13.1% in the Interior by year-end. This level of auction volume is less than optimal and increases risk to the MPS.

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 MPS. This data is used to establish market-based stumpage rates.

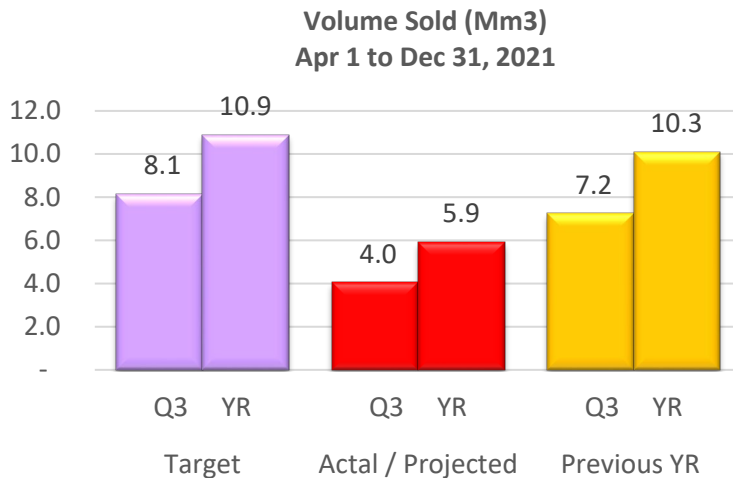
For the twelve-month period ending December 31, 2021, the BCTS auction volume harvested was within five percentage points of major licensees' harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

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 99% conformance.
- The overall average performance rating for the third 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 December 31, BCTS sold 50% of its Q3 target. The implementation of the government's Old Growth Strategy along with severe floods have severely impacted performance.

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

Quarter 3 timber volume sold by business area

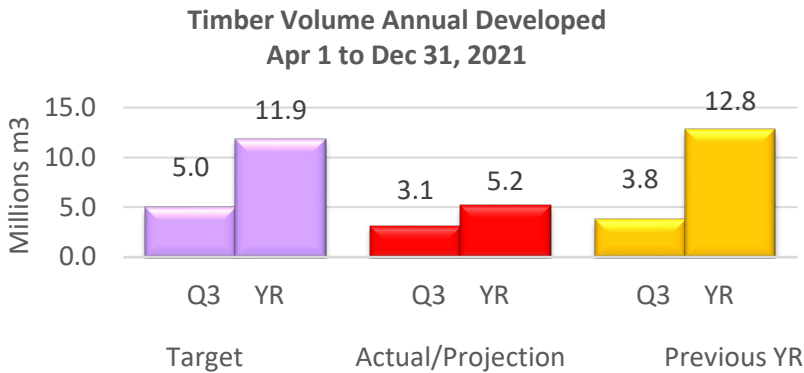
Volume Sold Coast	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CHINOOK	0.35	0.21	-0.14	-40%
SEAWARD	0.45	0.23	-0.22	-49%
STRAIT OF GEORGIA	0.94	0.57	-0.37	-39%
Coast Total	1.74	1.01	-0.73	-42%

Volume Sold North	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
BABINE	0.60	0.40	-0.20	-34%
PEACE LIARD	0.59	0.25	-0.34	-58%
PRINCE GEORGE	1.13	0.24	-0.89	-79%
SKEENA	0.58	0.14	-0.44	-76%
STUART NECHAKO	0.71	0.50	-0.21	-30%
North Total	3.61	1.53	-2.08	-58%

Volume Sold South	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CARIBOO CHILCOTIN	0.61	0.25	-0.36	-59%
KAMLOOPS	0.69	0.38	-0.31	-45%
KOOTENAY	0.68	0.56	-0.12	-18%
OKANAGAN	0.79	0.31	-0.48	-61%
South Total	2.77	1.50	-1.27	-46%

OBJECTIVE 1: SELLING THE APPORTIONMENT

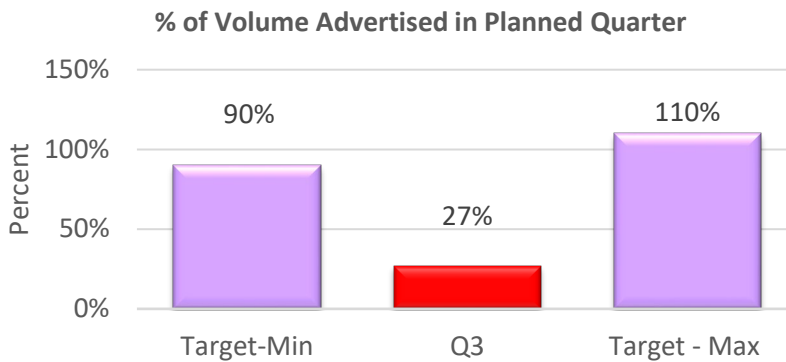
Develop sufficient timber to maximize timber volume offered and sold



BCTS develops timber to have enough inventory for future auctions. To date, BCTS has declared 3.1 Mm³ of timber ready to sell.

Implementation of the Old Growth Strategy has paused a significant amount of timber development. BCTS is projecting that it will fall short of its annual target by 56% by fiscal year-end.

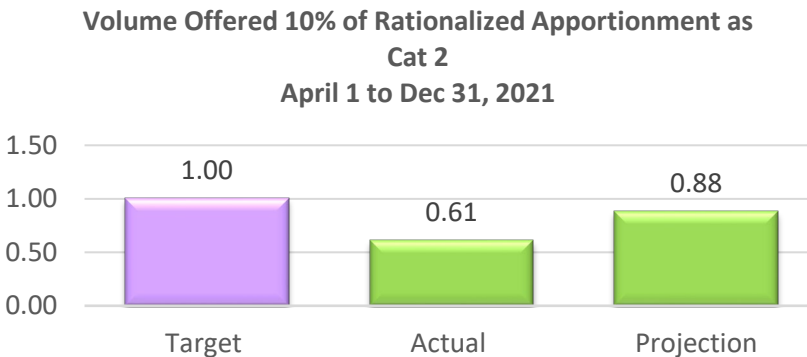
The volume of timber supplied to the market is reliable



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 under achieved its target for reliability of timber supply due to the implementation of the Old Growth Strategy and the flooding that occurred in late 2021.

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 third quarter BCTS has offered 61% of its annual target volume to Category 2 registrants. Subsequent to Q3, the rationalized apportionment for the year was reduced from 10Mm³ to 6.2Mm³ in recognition of the Old Growth Strategy impacts. BCTS is currently projecting to overachieve its revised annual target of 620,000 m³ by year-end.

OBJECTIVE 2: GENERATING REVENUE

Gross revenue



Gross revenue to date was 9.7% greater than target, and \$20.4M more than the previous year. These increases are due to higher-than-expected billed rates for harvested timber.

BCTS is projecting that it will overachieve its annual gross revenue target.

Less: capitalized expenditures

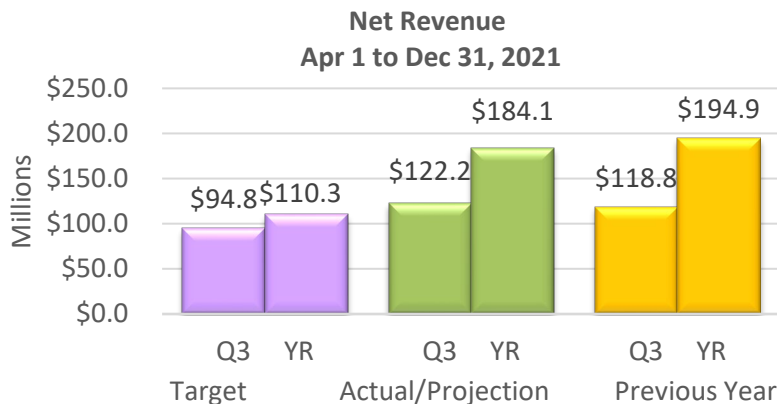


Capitalized expenditures for the quarter were \$163.9M

At this time, BCTS is projecting its annual expenditures for the year will be under target by \$2.1M, mainly due to a decline in harvested timber levels.

Silviculture liability expenses include an unexpected increase of \$6.7M for wildfire plantation damage.

Equals: net revenue



Net Revenue to date was \$122.2M, or 29% more 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 Work Environment Survey (WES) is conducted biennially and solicits feedback on elements of the work environment such as tools and workspace, stress, and workload, staffing practices and supervisory level management.

The last WES was done in 2020 and during the past 2 years the BCTS People Practices Working Group (PPWG) have actioned a number of projects to help improve the work environment.

The next WES is scheduled to begin at the end of January 2022. When the survey results are released in late spring the BCTS PPWG will again analyze the results and develop a work plan to address the findings.

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 Q3 BCTS conducted a Lean workshop to improve and standardize the Planning and Inventory process for the Okanagan Columbia Business Area.

Results of the workshop will clarify roles and responsibilities, improve the timeliness and accuracy and consistency of our planning process, and ultimately assist in increasing the inventory of ready to sell inventory.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

Pursue effective relationships

Through the dedication and efforts of our business relationship staff in the business areas, BCTS continues to pursue mutually beneficial effective relationships with willing third-party partners. In most cases, these partners have an Indigenous affiliation – for example, companies that are 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) and collaborative management agreements (CMAs).



APPENDIX 1 – OUTPUTS

Key year-to-date results by Coast and Interior areas April 1 to December 31, 2021

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm³)	7.87	4.58	1.23	1.71	1.64
Add: Volume Advertised CAT2 (Mm ³)	0.58	0.61	0.17	0.17	0.27
Less: No Bid Sales/No Sale	0.33	0.94	0.26	0.35	0.33
Less: Timing Variance (note 1)	0.00	0.23	0.13	0.02	0.08
Plus: YE Timing Variance	0.00	0.02	0.00	0.02	0.00
Volume Sold (Mm³)	8.12	4.04	1.01	1.53	1.50
Volume Scaled (Harvested (Mm³))	6.28	5.80	1.35	2.20	2.25
Lump Sum Timber Sale Licences			Number (TSL)		Volume (Mm³)
• Advertised			52		1.03
• Less: No Bid/No Sale			(17)		(0.27)
• Total Sold			35		0.76

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

APPENDIX 2

April 1 – December 31, 2021		2021/22 First Quarter (Millions) Apr 1- June 30		2021/22 Second Quarter (Millions) July 1- Sept 30		2021/22 Third Quarter (Millions) Oct 1- Dec 31
Revenue from External Sources		\$77.411		\$74.758		\$133.933
GROSS REVENUE		\$77.411		\$74.758		\$133.933
Capitalized Expenses:						
Cost of Timber Inventory Harvested						
Administration / Salaries	(\$4.354)		(\$9.250)		(\$9.124)	
Planning and Sales	(\$10.114)		(\$13.027)		(\$3.598)	
Access – Amortization	(\$9.545)		(\$9.468)		(\$8.935)	
Sub-Total Cost of Timber Harvested & Amortization		(\$24.013)		(\$31.745)		(\$21.657)
Other Costs						
Silviculture Liability Expenses	(\$15.000)		(\$15.000)		(\$15.000)	
Wildfire Liability *new	(\$0.000)		(\$0.000)		(\$6.700)	
Road and Bridge Maintenance	(\$1.490)		(\$4.000)		(\$3.947)	
Harvest Conformance	(\$0.243)		\$0.126		(\$0.056)	
Administrative Overhead	(\$7.029)		(\$8.536)		(\$8.295)	
Non-BCTS Roads	(\$0.315)		(\$0.472)		(\$0.266)	
Land Base Investment / FFT	\$0.461		\$0.465		\$0.347	
Sec.108 – Recoveries	\$0.928		\$0.000		\$0.481	
Sub-Total Other Costs		(\$22.688)		(\$27.417)		(\$33.436)
NET REVENUE/(LOSS) Before Covid-19 Costs		\$30.710		\$15.596		\$78.841
Non-Operating Expenses: Covid-19 Costs		(\$1.020)		(\$1.333)		(\$0.522)
Flood						(\$0.043)
NET REVENUE/ (LOSS)		\$29.690		\$14.263		\$78.276
Note: Results are unaudited						

Selected Balance Sheet Items As at December 31, 2021		2021/22 First Quarter (Millions)		2021/22 Second Quarter (Millions)		2021/22 Third Quarter (Millions)
Silviculture Liability		(\$184.058)		(\$175.339)		(\$185.366)
Inventory Value of Developed Timber:						
Timber Inventory – Opening Balance	\$141.075		\$136.861		\$130.079	
Timber Developed	<u>\$10.254</u>		<u>\$15.495</u>		<u>\$19.591</u>	
Timber Available for Sale	\$151.329		\$152.356		\$149.670	
Cost of Timber Inventory Harvested	<u>(\$14.468)</u>		<u>(\$22.277)</u>		<u>(\$12.722)</u>	
Timber Inventory – Closing Balance		\$136.861		\$130.079		\$136.949
Work-In-Progress Inventory – Closing Balance		\$61.717		\$65.505		\$68.332
Roads:						
Book Value	\$922.289		\$923.605		\$937.008	
Accumulated Amortization	<u>(\$626.514)</u>		<u>(\$635.982)</u>		<u>(\$644.917)</u>	
Net Book Value		\$284.975		\$287.623		\$292.091
Deactivation Liability		(\$15.590)		(\$15.800)		(\$15.707)
Seed Inventory:		\$18.976		\$19.007		\$19.128
Note: Results are Unaudited						



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

