



BCTS
BC Timber Sales

QUARTER PERFORMANCE REPORT

APRIL 1, 2022 – JUNE 30, 2022



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



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TABLE OF CONTENTS

- INTRODUCTION 4
- QUARTERLY PERFORMANCE HIGHLIGHTS 5
- GOAL: Providing Credible Data For MPS..... 6**
 - OBJECTIVE 1: Selling the Apportionment 8**
 - OBJECTIVE 2: Revenue 10**
 - OBJECTIVE 3: Continuous Improvement..... 11**
- APPENDIX 1 – OUTPUTS..... 13
- APPENDIX 2 – FINANCIAL PERFORMANCE 14

BC TIMBER SALES AREA MAP



INTRODUCTION

BC Timber Sales (BCTS) presents its first quarter performance report for 2022/23. 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

On November 2, 2021, BCTS implemented the new Old Growth Strategy. Since then, BCTS has been working with the Ministry of Forests (MOF) and Indigenous Peoples to define old growth forests considered to be at high risk of irreversible loss. BCTS has adjusted its timber development activities in response to MOF direction and harvesting of some areas has been temporarily deferred. To date, implementation efforts have been more challenging than anticipated and performance for the quarter was adversely impacted. Currently, BCTS is projecting that it will not achieve its key performance targets by year-end, including auction volume, volume sold, and timber development.



FOREST SECTOR SAFETY

The BCTS Safety Working Group met during the quarter to analyze the results of the most recent SAFE Company Maintenance Audit and review the Annual Management Plan.

Areas of focus for the coming year include improving on drills, first aid assessments, our incident investigations, and our Management review process. The annual safety audit will be conducted in October 2022. The safety recognition program will be expanded to include three new awards.



RECONCILIATION WITH INDIGENOUS PEOPLES

BCTS continues to work in close collaboration with MOF staff on the Provinces goal of meaningful reconciliation and implementation of the *Declaration Act*.

Each of BCTS' 12 business areas are utilizing dedicated Indigenous Relations staff to focus on relationship building with local Indigenous Nations and gaining knowledge of how BCTS can work together with Nations in our Reconciliation journey. With pandemic-related challenges settling down and associated restrictions now lifted, staff are meeting with Nations in person more often. Staff also continue to take Reconciliation-related learning and in quarter one, approx. 86% 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 peoples' history, culture, and legal framework.

BCTS also works collaboratively with the BC First Nations Forestry Council and the MOF Indigenous Relations Branch on the implementation of the Indigenous Forestry Scholarship Program. In the first quarter of this year, 10 students began their work placements in our business areas.

BCTS enters into relationship building, collaborative management, and disposition agreements with interested Indigenous Nations. These are mutually beneficial agreements based on the principles of reconciliation and may support capacity building, cooperative management, and recognition of each parties' goals amongst other objectives. In quarter one, BCTS continued to work on CMAs, MOUs, and Disposition Agreements to strengthen relationships with Indigenous-affiliated business partners.



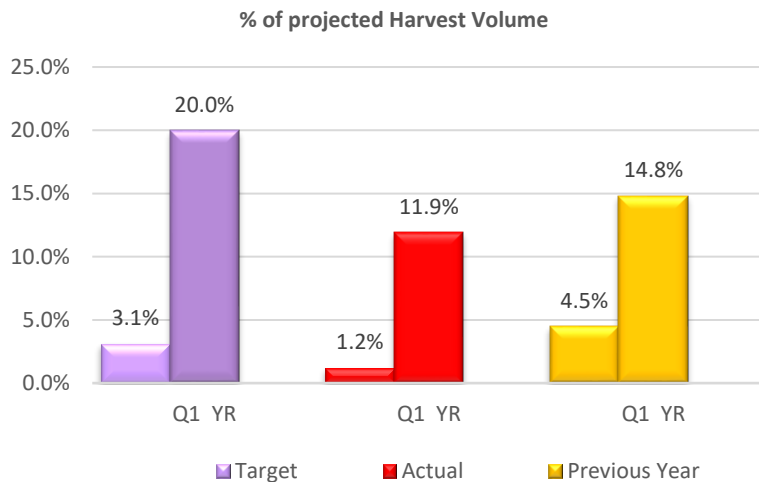
SUSTAINABLE FOREST MANAGEMENT

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 legal requirements.

Over the course of 2022, BCTS is making significant updates to 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 MPS

BCTS auction volume as a percent of projected provincial harvest volume

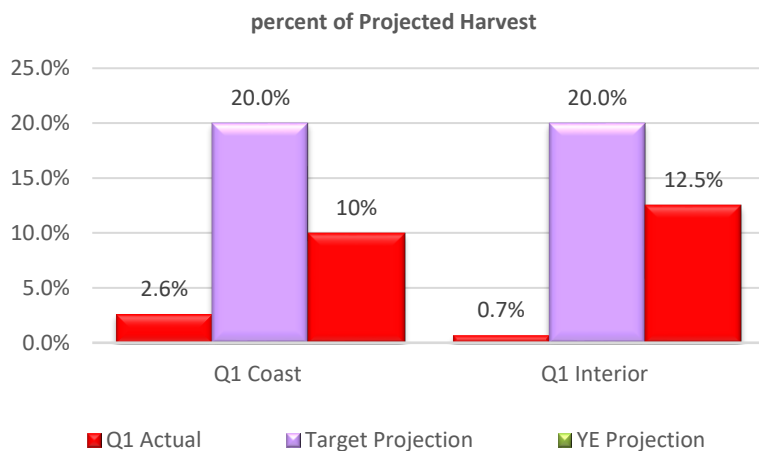


The volume of timber auctioned by BCTS must be at a level sufficient to support the Market-based Pricing System.

At the end of the quarter, BCTS had advertised 1.2% of the projected annual provincial harvest volume. BCTS is projecting to auction 11.9% of the projected provincial harvest volume by year-end. This volume is significantly under the required level.

Implementation challenges of the Old Growth Strategy is the main reason for the shortfall.

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

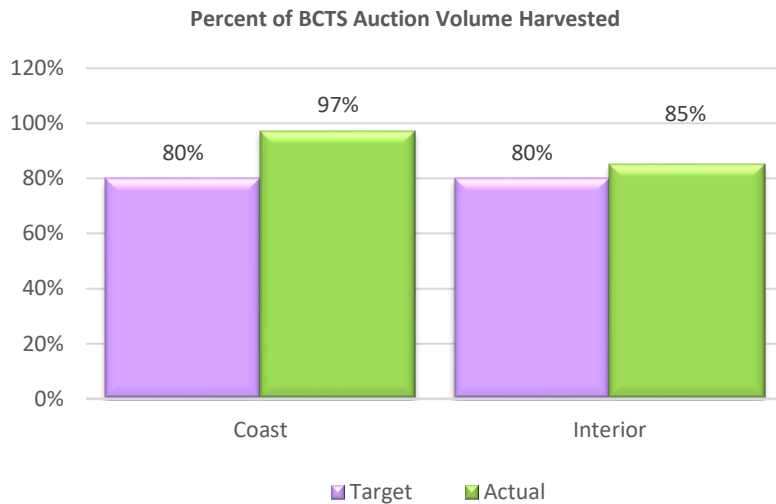


BCTS advertised 2.6% of the projected annual harvest volume on the Coast, and 0.7% in the Interior.

Due to the impacts of the Old Growth Strategy BCTS is projecting to auction 10% of the projected harvest volume on the Coast and 12.5% in the Interior by year end.

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 June 30, 2022, 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.

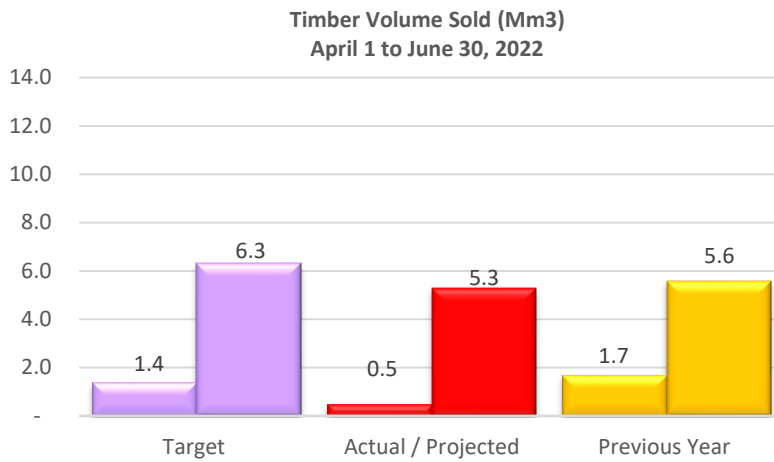
For BCTS to ensure it provides credible data to establish market-based stumpage rate it also must ensure its data is complete, accurate, and reliable.

BCTS has developed and is implementing a data quality management system (DQMS) that will conform to the International Organization for Standardization (ISO) 9001: 2015 quality management system requirements. The data quality management system is being implemented throughout BCTS. BCTS will continue with the current performance measures until the program has achieved conformance with the standard. The target date for achieving full conformance with the standard is the end of fiscal 2022-23.

During the first quarter, the overall average performance rating was 99%. The rating was calculated as an average of the current key performance data sets.

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 June 30th, BCTS sold 0.5Mm3, or 36% of target. The shortfall in sales for the quarter was 0.9Mm3.

BCTS is currently projecting that it will sell 5.3Mm3 by year-end, a shortfall of 1.0Mm3. Implementation of the Old Growth Strategy and Reconciliation activities are adversely impacting performance.

Quarter 1 Timber Volume Sold by Business Area

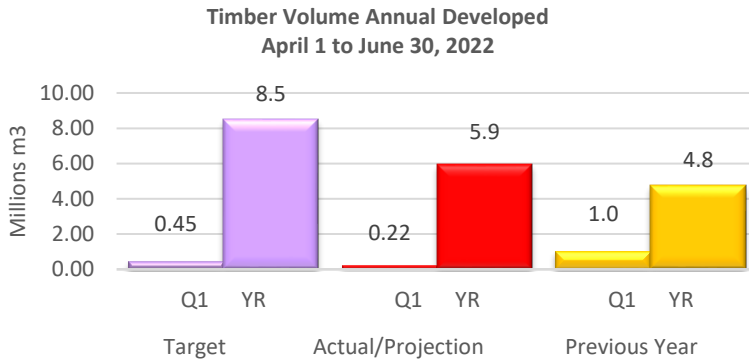
Volume Sold Coast	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CHINOOK	0.13	0.03	-0.10	-77%
SEAWARD	0.05	0.07	0.02	40%
STRAIT OF GEORGIA	0.10	0.16	0.06	60%
Coast Total	0.28	0.26	-0.02	-5%

Volume Sold North	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
BABINE	0.10	0.00	-0.10	-100%
PEACE LIARD	0.22	0.00	-0.22	-100%
PRINCE GEORGE	0.21	0.16	-0.05	-26%
SKEENA	0.03	0.00	-0.03	-92%
STUART NECHAKO	0.06	0.00	-0.06	-100%
North Total	0.62	0.16	-0.46	-75%

Volume Sold South	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CARIBOO CHILCOTIN	0.10	0.03	-0.07	-66%
KAMLOOPS	0.07	0.01	-0.06	-89%
KOOTENAY	0.18	0.00	-0.18	-100%
OKANAGAN	0.12	0.03	-0.09	-75%
South Total	0.47	0.07	-0.40	-84%

OBJECTIVE 1: SELLING THE APPORTIONMENT

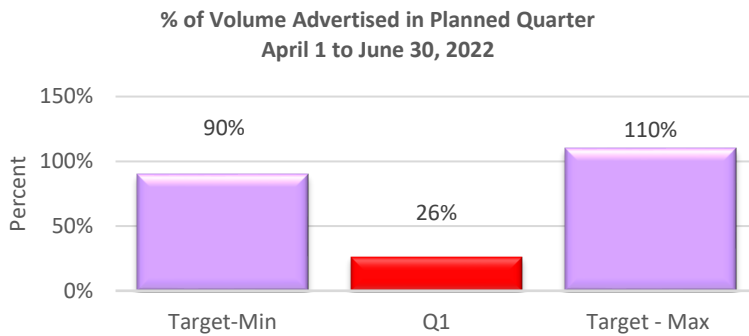
Develop sufficient timber to maximize timber volume offered and sold



BCTS develops timber to have enough inventory for future auctions. To date, BCTS has declared 0.22Mm³ of timber ready to sell. The production of developed timber volume during the quarter was severely impacted by the implementation of the Old Growth Strategy,

At this time, BCTS is projecting that it will fall short by 2.6Mm³, or 31% of its annual target by fiscal year-end.

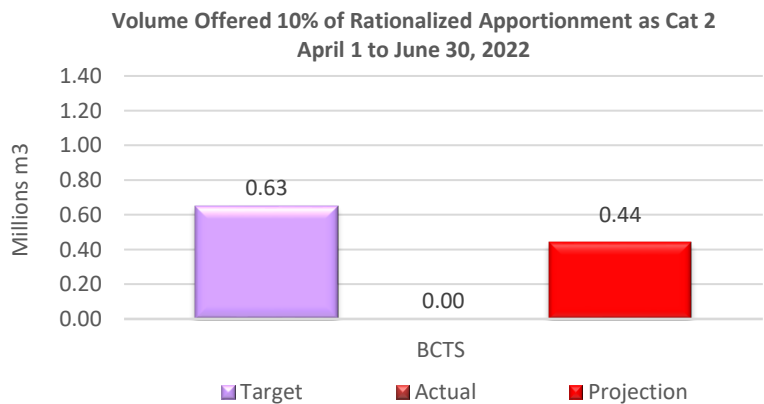
The volume of timber supplied to the market is reliable



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 first quarter, BCTS under achieved its target for reliability of timber supply mainly due to implementation of the Old Growth Strategy and Reconciliation activities.

Offer 10% of Rationalized Apportionment as Category 2 Timber Sales

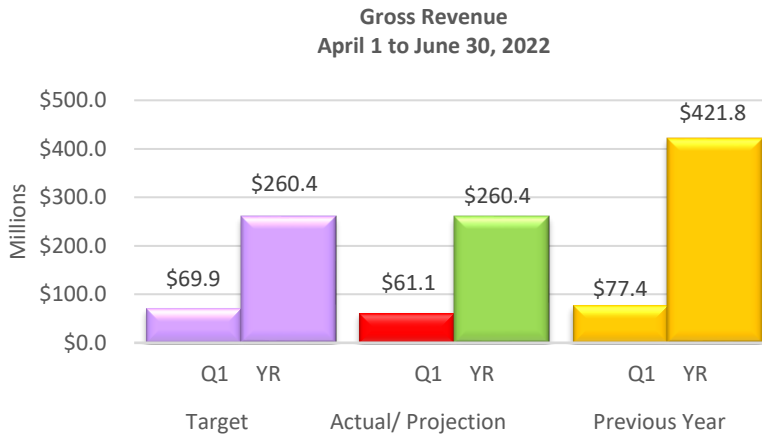


A key BCTS strategy is to provide open access to Crown timber for non-tenured or insufficiently tenured timber processing facilities. This promotes local employment and supports the value-added sector.

During the quarter, BCTS did not offer any Category 2 to registrants. BCTS is projecting that it will offer 0.44Mm³ by year end, a shortfall of 0.19Mm³.

OBJECTIVE 2: REVENUE

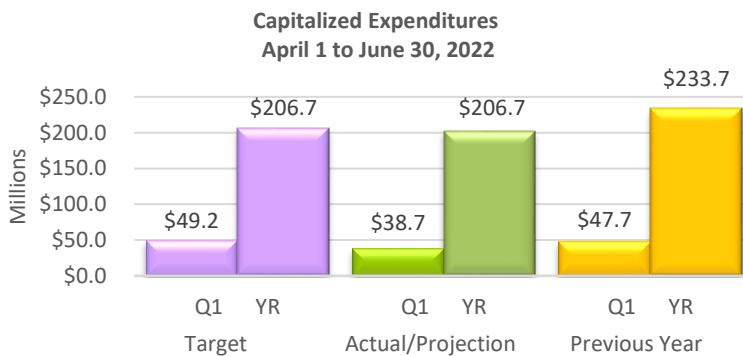
Gross Revenue



Gross revenue to date was \$61.1M; \$8.8M less than target.

Although harvest volume was less than expected, rates paid for the harvested timber during the period was higher than anticipated. BCTS is expecting that billed rates will remain high and it will achieve its annual gross revenue target of \$260.4M.

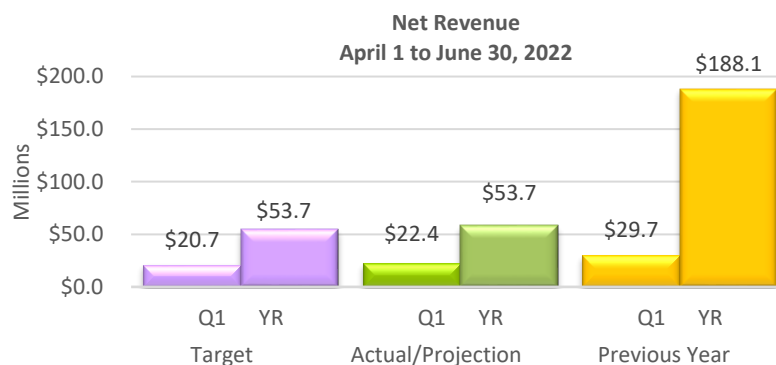
Less: Capitalized Expenditures



Capitalized expenditures for the quarter were under budget by \$10.5M.

At this time, BCTS is projecting that its annual expenditures will be in line with budget forecasts. Q1 reflects timing differences for services and payments that will be captured in Q2, lower harvest volume, and a general slowdown in timber development activities.

Equals: Net Revenue



Net Revenue for the quarter was \$22.4M. It was \$1.7M, or 8%, greater than target.

Currently, BCTS is projecting that it will achieve its annual net revenue target for the year.

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 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 2022 WES has been completed and Business Area results have been released. During the fall Business Areas will unpack the WES results and identify opportunities to improve the workplace.

The BCTS People Practices Working Group (PPWG) will analyze provincial trends and identify actions that can be taken at a provincial level and will use the findings to develop an annual work plan. Projects undertaken in the previous WES cycle included a workplace makeover contest, an awareness campaign about mental health and the resources that are available, the Lean hiring project and a project to improve the BCTS summer student program.

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 Q1 BCTS conducted a Lean workshop to improve and standardize the hiring process. The target for improvement is to reduce average hiring time from the current 90 days to 30 days.

Results of the workshop will improve pre-planning for the hiring process to reduce waste resulting from waiting. A task team of the safety working group has also initiated a Lean project to improve standardization and reduce duplication between Ministry Safety Management System Management Review and the BCTS Safety Management Review.

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 Q1 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.

In addition, BCTS has formed a Communications Working Group, made up of representatives from across the province, which will assist with updating the BCTS communication strategy.



APPENDIX 1 – OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1 to June 30, 2022

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm³)	1.36	0.51	0.27	0.09	0.15
Add: Volume Advertised- CAT2 (Mm ³)	0.05	0.00	0.00	0.00	0.00
Less: No Bid Sales/No Sale	0.03	0.01	0.00	0.01	0.00
Less: Timing Variance (note 1)	0.00	0.11	0.03	0.00	0.08
Plus: YE Timing Variance	0.00	0.10	0.02	0.08	0.00
Volume Sold (Mm³)	1.38	0.49	0.26	0.16	0.07
Volume Scaled (Harvested (Mm³))	1.00	0.93	0.48	0.20	0.25
Lump Sum Timber Sale Licences			Number (TSL)		Volume (Mm³)
• Advertised			6		.158
• Less: No Bid/No Sale			(2)		(.082)
• Total Sold			4		.150

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

APPENDIX 2 – FINANCIAL PERFORMANCE

April 1 – June 30, 2022				2021/22 First Quarter (Millions) April 1-June 30	2022/23 First Quarter (Millions) April 1-June 30
Revenue from External Sources				\$77.4	\$61.1
GROSS REVENUE				\$77.4	\$61.1
Capitalized Expenses:					
Cost of Timber Inventory Harvested					
Administration / Salaries			(\$4.4)		(\$4.9)
Planning & Sales			(\$10.1)		(\$2.5)
Access – Amortization			(\$9.5)		(\$9.7)
Sub-Total Cost of Timber Harvested & Amortization				(\$24.0)	(\$17.1)
Other Costs					
Silviculture Liability Expenses			(\$15.0)		(\$13.7)
Road & Bridge Maintenance			(\$1.4)		(\$1.9)
Non- BCTS Roads			(\$0.3)		(\$0.0)
Harvest Conformance			(\$0.2)		(\$0.1)
Operational & Administrative Overhead			(\$7.0)		(\$6.1)
Land Base Investment / FFT Recoveries			\$1.3		\$0.2
Sub-Total Other Costs				(\$22.7)	(\$21.6)
NET REVENUE/(LOSS) before Covid-19 Costs				\$30.7	\$22.4
Non-operating expenses: Covid-19 Costs				(\$1.0)	(\$0.0)
NET REVENUE/ (LOSS)				\$29.7	\$22.4
Note: Results are Unaudited					

APPENDIX 2

Selected Balance Sheet Items As at June 30 th , 2022				2021/22 First Quarter (Millions)		2022/23 First Quarter (Millions)
Silviculture Liability				\$184.0		\$197.1
Inventory Value of Developed Timber						
Timber Inventory – Opening Balance			\$141.0		\$133.3	
Timber Developed			\$10.2		\$8.7	
Cost of Timber Inventory Harvested			(\$14.4)		(\$7.3)	
Timber Inventory – Closing Balance				\$136.8		\$134.7
Work-in-progress Inventory – Closing Balance				\$61.7		\$71.9
Roads						
Book Value			\$922.2		\$943.1	
Accumulated Amortization			(\$637.3)		(\$653.8)	
Net Book Value				\$284.9		\$289.3
Deactivation Liability				(\$15.5)		(\$19.4)
Seed Inventory				\$18.9		\$18.3
Note: Results are Unaudited						



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