

QUARTER PERFORMANCE REPORT

APRIL 1, 2022 – September 30, 2022



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



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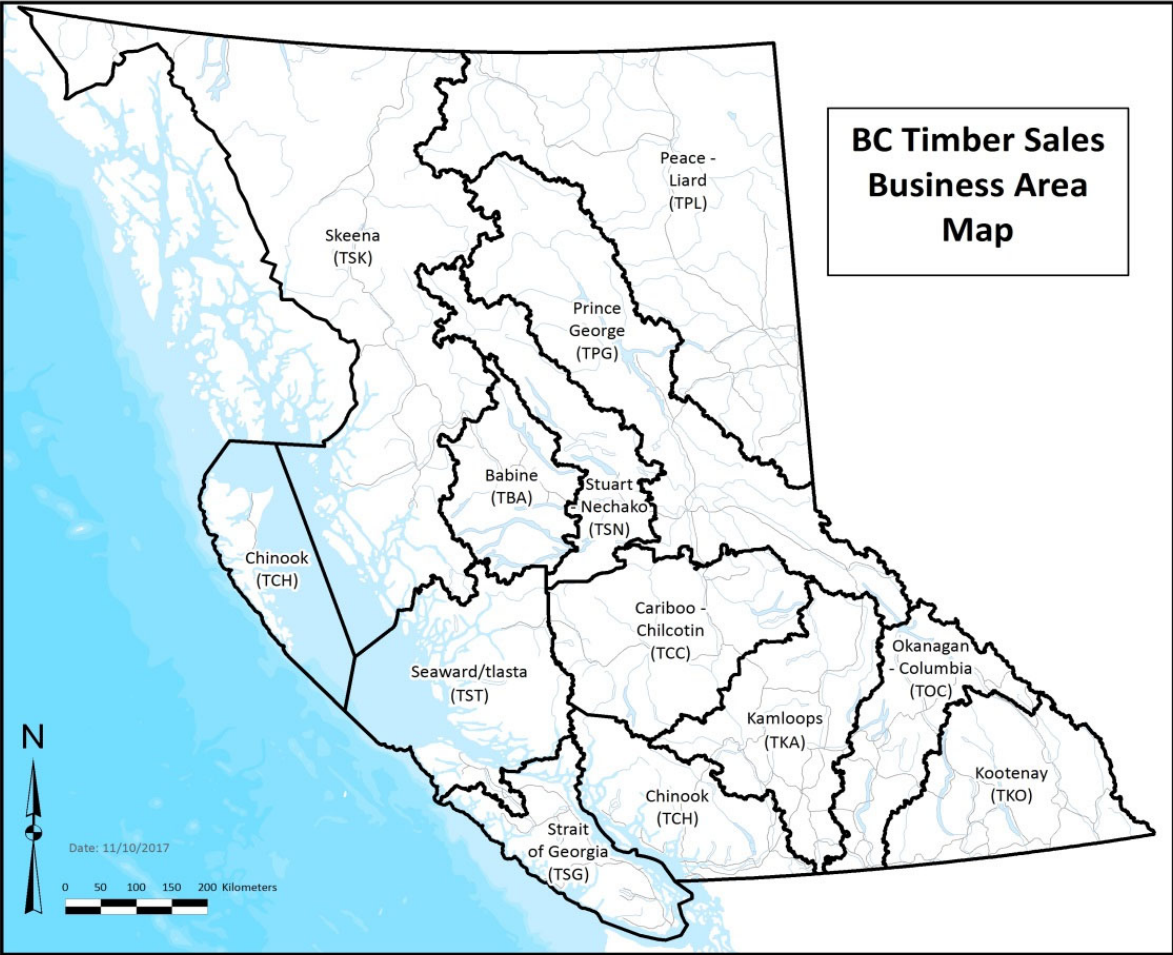
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BC TIMBER SALES AREA MAP

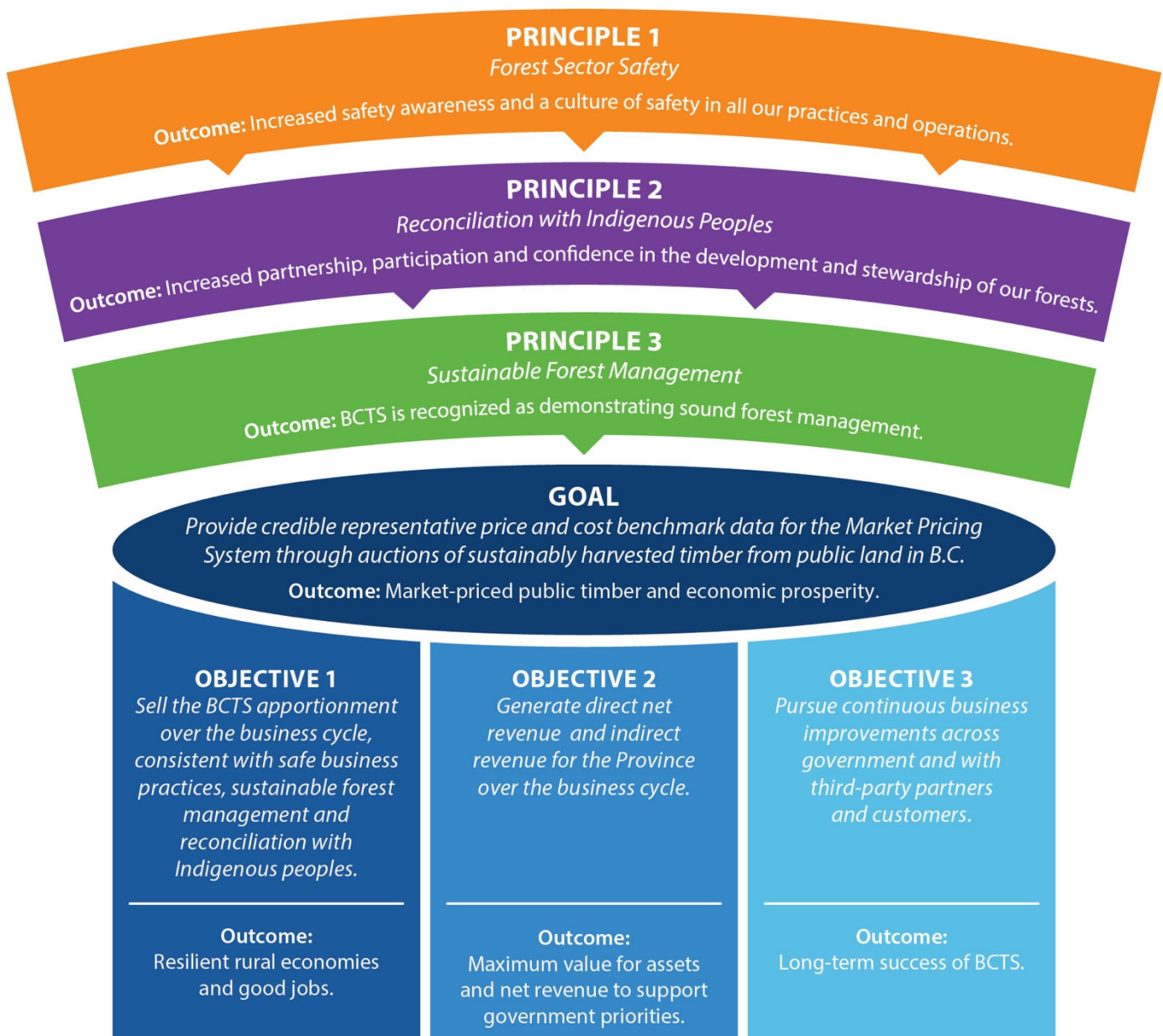


INTRODUCTION

BC Timber Sales (BCTS) presents its second 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 public timber and by playing a pivotal role in the ministry's reforestation strategies.



QUARTERLY PERFORMANCE HIGHLIGHTS



OVERALL PERFORMANCE: SUMMARY OF HIGHLIGHTS

BCTS implemented the government's Old Growth Strategy on November 2, 2021. This had serious impacts on BCTS operations and performance. Currently, BCTS is projecting that it will not achieve its key performance targets by year-end, including volume sold and timber.



FOREST SECTOR SAFETY

The recognition program within the BCTS Safety system has been expanded to include three new awards to recognize contributions to worker safety. The annual safety audit will be conducted in October 2022.



RECONCILIATION WITH INDIGENOUS PEOPLES

BCTS continues to work in close collaboration with Ministry of Forests (MOF) staff on the provinces' goal of meaningful reconciliation and implementation of the Declaration Act. With pandemic-related challenges settling down and associated restrictions now lifted, staff are meeting with Nations in person more often. Staff also continued to take Reconciliation-related learning and in quarter two. Approximately 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 is also working in collaboration with the BC First Nations Forestry Council, and MOF Indigenous Relations Branch, on the implementation of a renewed Indigenous Forestry Scholarship Program. In the second quarter of this year, 10 students concluded their work placements in our business areas and planning for next years' placements within BCTS business areas has begun



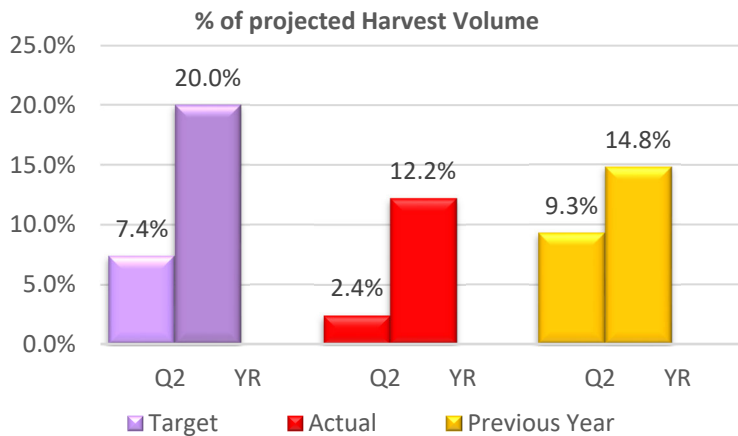
SUSTAINABLE FOREST MANAGEMENT.

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.

Over the course of 2022 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

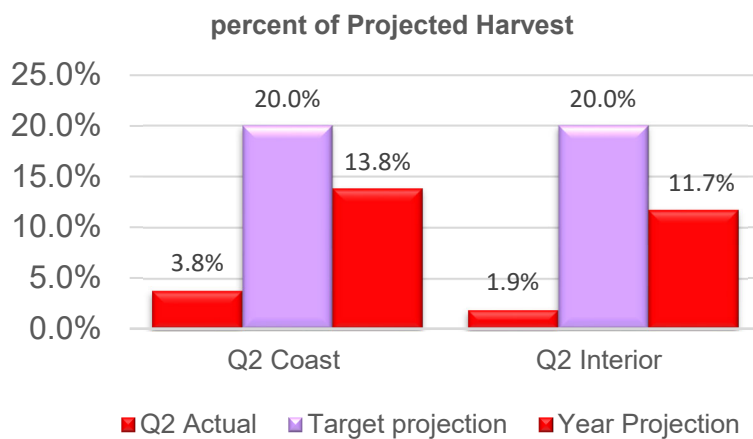
BCTS auction volume as a percent of projected provincial harvest volume



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

At the end of the quarter, BCTS had advertised 2.4% of the projected annual provincial harvest volume. BCTS is projecting to auction 12.2% of the projected provincial harvest volume by year-end.

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

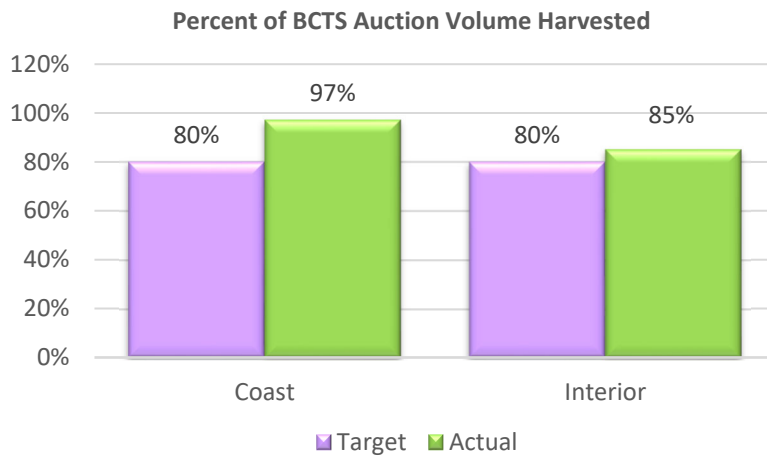


BCTS advertised 3.8% of the projected annual harvest volume on the Coast and 1.9% in the Interior.

BCTS is projecting to auction 13.8% of the projected harvest volume on the Coast and 11.7% in the Interior by year-end.

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.

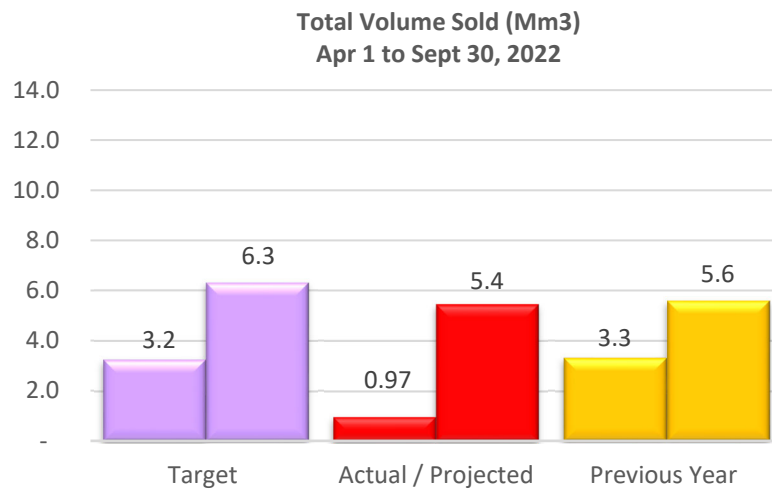
For the twelve-month period ending September 30, 2022, the BCTS auction volume harvested was within five percentage points of major licensees' harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

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 100% conformance.
- The overall average performance rating for the second quarter was 97.5%.

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 had sold 30% of its Q2 target. The impacts of the Old Growth Strategy, reconciliation activities have hampered performance

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

Quarter 2 timber volume sold by business area

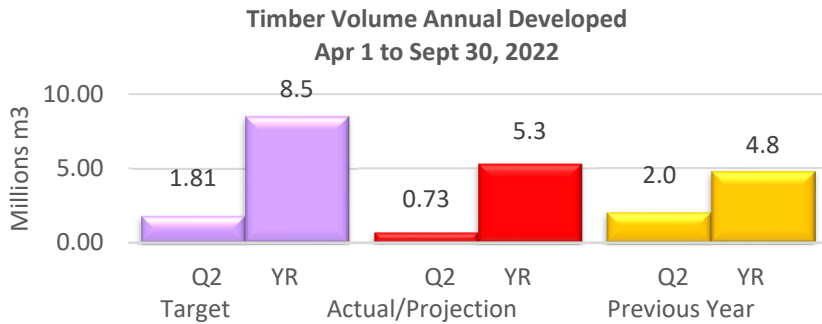
Volume Sold Coast	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CHINOOK	0.39	0.08	-0.31	-79%
SEAWARD	0.14	0.07	-0.07	-49%
STRAIT OF GEORGIA	0.25	0.25	0.00	100%
Coast Total	0.78	0.40	-0.38	-49%

Volume Sold North	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
BABINE	0.20	0.13	-0.08	-38%
PEACE LIARD	0.31	0.00	-0.31	-100%
PRINCE GEORGE	0.42	0.20	-0.22	-52%
SKEENA	0.21	0.00	-0.20	-99%
STUART NECHAKO	0.23	0.00	-0.23	-100%
North Total	1.37	0.33	-1.04	-76%

Volume Sold South	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CARIBOO CHILCOTIN	0.23	0.04	-0.19	-83%
KAMLOOPS	0.18	0.02	-0.16	-89%
KOOTENAY	0.36	0.10	-0.26	-72%
OKANAGAN	0.34	0.08	-0.26	-76%
South Total	1.11	0.24	-0.87	-78%

OBJECTIVE 1: SELLING THE APPORTIONMENT

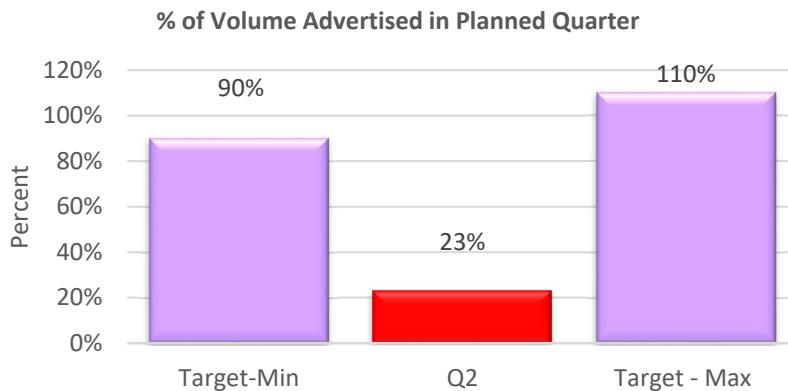
Develop sufficient timber to maximize timber volume offered and sold



BCTS develops timber to have enough inventory for future auctions. To date, BCTS has developed 0.73 Mm³ of timber ready to sell.

At this time, BCTS is projecting it will fall short of its annual target by 38% by fiscal year-end.

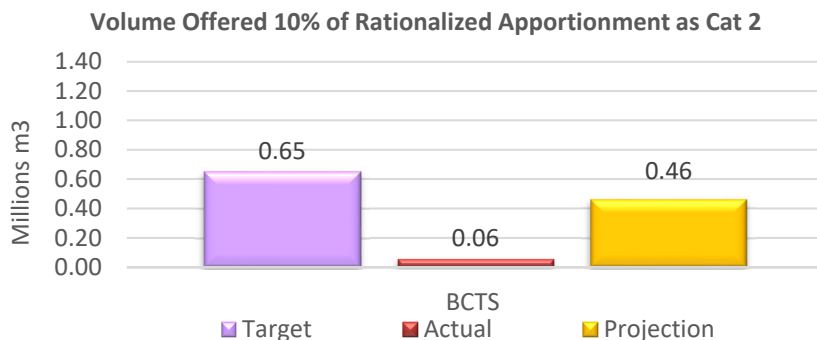
The volume of timber supplied to the market is reliable



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. Old growth deferrals and consultation activities with Indigenous Peoples were contributing factors.

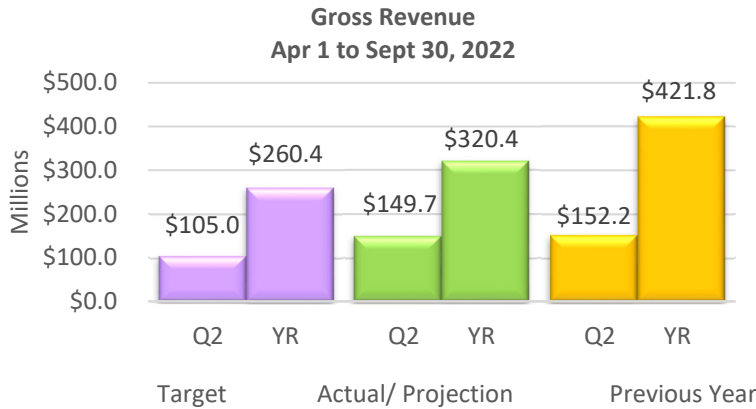
Offer 10% of rationalized apportionment as category 2 timber sales



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 9% of its annual target volume to Category 2 registrants. BCTS is currently projecting to under achieve its annual target by year-end.

OBJECTIVE 2: GENERATING REVENUE

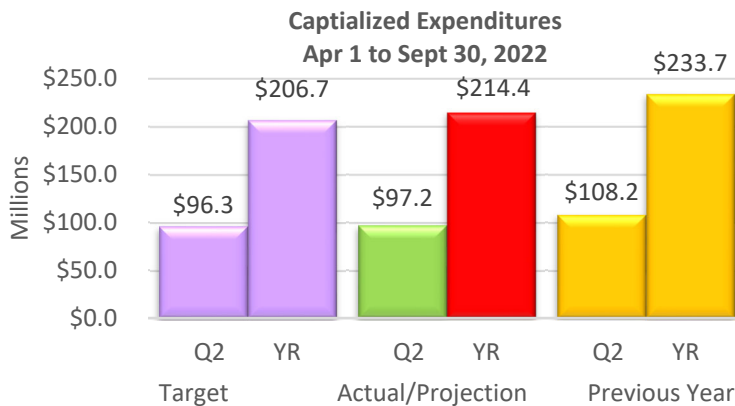
Gross revenue



Gross revenue to date was 143% of target due to higher-than-expected stumpage rates paid on harvested timber.

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

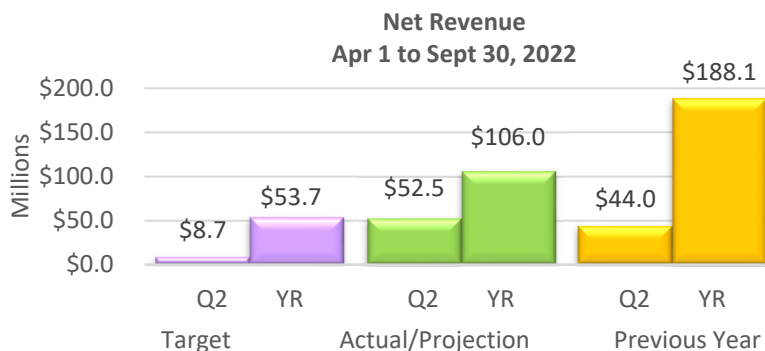
Less: capitalized expenditures



Capitalized expenditures for first six months were substantially on target.

At this time, BCTS is projecting its annual expenditures for the year will be over budget by \$7.7M mainly due to an increase in silviculture liability a result of increased interest rates.

Equals: net revenue



Net Revenue to date was \$43.8M, well in excess of 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 supporting staff engagement.

The BCTS Leadership Team reviewed the results of the 2022 WES and identified strategic areas of opportunity to improve the work environment. The BCTS People Practices Working Group will meet in the third quarter to refine areas of opportunity and identify corporate projects to address the opportunities.

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. One of the Lean projects underway is a new lean hiring process. The improved process will focus on improving the planning of the hiring process.

The improvements will eliminate delays caused by waiting and reduce the hiring time from an average of 90 days to only 30 days. The improvements will also result in a better hiring experience for candidates as critical dates in the process, such as interview dates may be included in the original posting.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

Pursue effective relationships

BC Timber Sales has begun an initiative to enhance BCTS. The objective is to better position BCTS to deliver on the Government Objectives stated in the Intentions Paper. There are four focus areas:

- Supporting the Market Pricing System as our primary Mandate/Goal
- Supporting the Value-Added sector
- Positioning BCTS as a “Partner of Choice”
- Rebranding and increasing trust in BCTS



APPENDIX 1 – OUTPUTS

Key year-to-date results by Coast and Interior areas April 1 to September 30, 2022

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm³)	3.10	1.01	0.37	0.38	0.26
Add: Volume Advertised CAT2 (Mm ³)	0.21	0.06	0.03	0.00	0.03
Less: No Bid Sales/No Sale	0.07	0.09	0.00	0.06	0.03
Less: Timing Variance (note 1)	0.00	0.10	0.01	0.07	0.02
Plus: YE Timing Variance	0.00	0.10	0.02	0.08	0.00
Volume Sold (Mm³)	3.24	0.98	0.41	0.33	0.24
Volume Scaled (Harvested (Mm³))	2.36	2.44	0.86	0.80	0.78
Lump Sum Timber Sale Licences			Number (TSL)		Volume (Mm³)
• Advertised			22		0.415
• Less: No Bid/No Sale			(6)		(0.109)
• Total Sold			16		0.306

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

APPENDIX 2

April 1 – September 30, 2022		2022/23		2022/23	
		First Quarter (Millions) April 1- June 30		Second Quarter (Millions) July 1- Sept 30	
Revenue from External Sources		\$61.139		\$88.563	
GROSS REVENUE		\$61.139		\$88.563	
Capitalized Expenses:					
Cost of Timber Inventory Harvested					
Administration / Salaries	(\$4.884)		(\$6.216)		
Planning and Sales	(\$2.467)		(\$3.488)		
Access – Amortization	(\$9.764)		(\$9.563)		
Sub-Total Cost of Timber Harvested & Amortization		(\$17.115)		(\$19.266)	
Other Costs					
Silviculture Liability Expenses	(\$13.738)		(\$28.762)		
Road and Bridge Maintenance	(\$1.910)		(\$3.944)		
Old Growth Costs	(\$0.022)		(\$0.043)		
Non-BCTS Roads	(\$0.022)		(\$0.235)		
Harvest Conformance	(\$0.078)		(\$0.140)		
Operational and Administrative Overhead	(\$6.126)		(\$6.415)		
Land Base Investment / FFT Recoveries /Sec.108	\$0.270		\$0.336		
Sub-Total Other Costs		(\$21.611)		(\$39.203)	
NET REVENUE/(LOSS) Before Covid-19 Costs		\$0.00		\$0.00	
Non-Operating Expenses: Covid-19 Costs		(\$0.00)		(\$0.00)	
NET REVENUE/ (LOSS)		\$22.413		\$30.094	
Note: Results are unaudited					

Selected Balance Sheet Items As at September 30, 2022		2022/23 First Quarter (Millions)	2022/23 Second Quarter (Millions)
Silviculture Liability		(\$197.157)	(\$198.839)
Inventory Value of Developed Timber:			
Timber Inventory – Opening Balance	\$133.362		\$134.796
Timber Developed	<u>\$8.785</u>		<u>\$14.135</u>
Timber Available for Sale	\$142.147		\$148.931
Cost of Timber Inventory Harvested	<u>(\$7.351)</u>		<u>(\$9.704)</u>
Timber Inventory – Closing Balance		\$134.796	\$139.228
Work-In-Progress Inventory – Closing Balance		\$71.956	\$74.488
Roads:			
Book Value	\$943.189		\$950.198
Accumulated Amortization	<u>(\$653.867)</u>		<u>(\$663.429)</u>
Net Book Value		\$289.322	\$286.768
Deactivation Liability		(\$19.405)	(\$18.694)
Seed Inventory:		\$18.381	\$19.434
Note: Results are Unaudited			

