

QUARTER PERFORMANCE REPORT

APRIL 1, 2022 – December 31, 2022

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



Library and Archives Canada Cataloguing in Publication Data

BC Timber Sales.

Quarter ... performance. – Quarter 3
(April 1/December 31, 2022)– Quarterly.

Running title: BC Timber Sales quarter ... performance.

ISSN 1715-6319 = Quarter ... performance (BC Timber Sales)

1. BC Timber Sales - Periodicals.
2. British Columbia - Marketing - Periodicals.
3. Logging - Government policy - British Columbia -
Periodicals.
I. Title. II. Title: BC Timber Sales quarter ... performance.

HD9764.B7B37

354.5'5

C2004-960204-X

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BC TIMBER SALES AREA MAP



INTRODUCTION

BC Timber Sales (BCTS) presents its third 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 fiscal year-end, including auction volume, volume sold, timber advertised, and timber development.

FOREST SECTOR SAFETY

BCTS has successfully completed its annual Safe Companies maintenance audit and has achieved an overall score of 96%. Some of the major strengths of the BCTS safety program include a mature and robust safety program with a management willingness to dedicate adequate resources to ensure its success. A strong safety culture throughout the organization able to adapt quickly to new hazards and a commitment to continuous improvement.

Some opportunities to improve safety performance include looking for ways to increase employee awareness of BCTS' safety goals & objectives and safety performance, consolidating various web-based safety policies and procedures to make them more easily accessed by new employees and supervisors, and developing a provincial reminder/tracking system to ensure routine compliance requirements are consistently completed. Routine compliance requirements include evacuation drills, first aid assessments, and updating emergency contact information.

RECONCILIATION WITH INDIGENOUS PEOPLES

As part of the Ministry of Forests, BCTS continues to work towards the provinces' goal of meaningful reconciliation with Indigenous Peoples and the implementation of the Declaration Act. This includes engaging with First Nations to build ongoing, positive, and durable relationships. BCTS also continues to learn how the program can work better with First Nations, resulting in increased participation of First Nations' communities in the forest sector. This may be through providing economic, employment and educational opportunities. BCTS staff continue with educational opportunities to: improve their cultural awareness, understand Indigenous Peoples' history and their relationship with the land, and why meaningful reconciliation is important. This includes working directly with local First Nations.

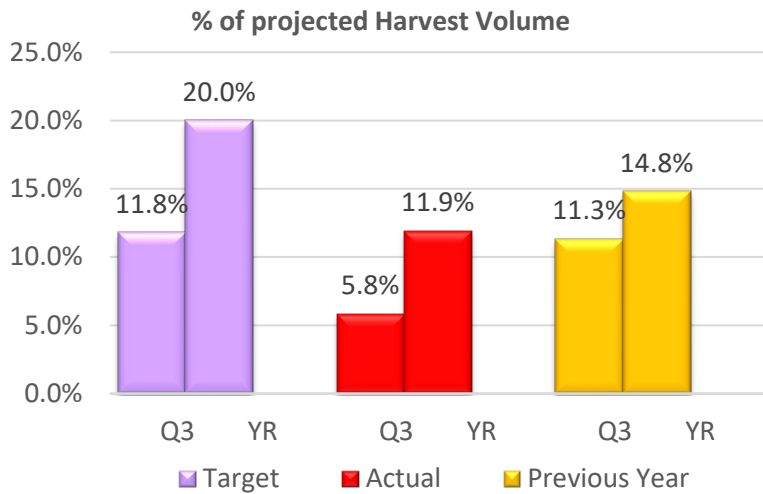
BCTS is also working in collaboration with the BC First Nations Forestry Council and Ministry of Forests' Indigenous Relations Branch, to support the Indigenous Forestry Scholarship Program. This includes providing funding for scholarships and placing students in summer jobs to gain experience to help them find a future permanent job.

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 made significant changes to its Environmental Management System and Sustainable Forest Management Program to meet the updated SFI 2022 Forest Management Standard. BCTS is an active member of the Western Canada SFI Implementation Committee.

GOAL: PROVIDING CREDIBLE DATA FOR MARKET PRICING

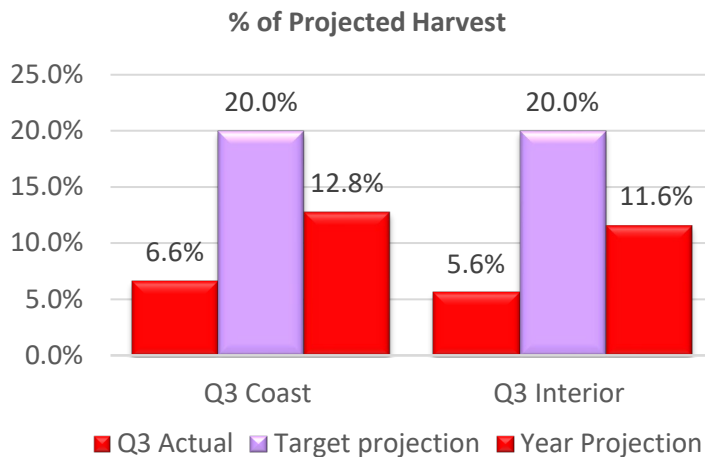
BCTS auction volume as a percent of projected provincial harvest volume



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 5.8% of the projected annual provincial harvest volume. BCTS is projecting to auction 11.9% of the projected provincial harvest volume by fiscal year-end.

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

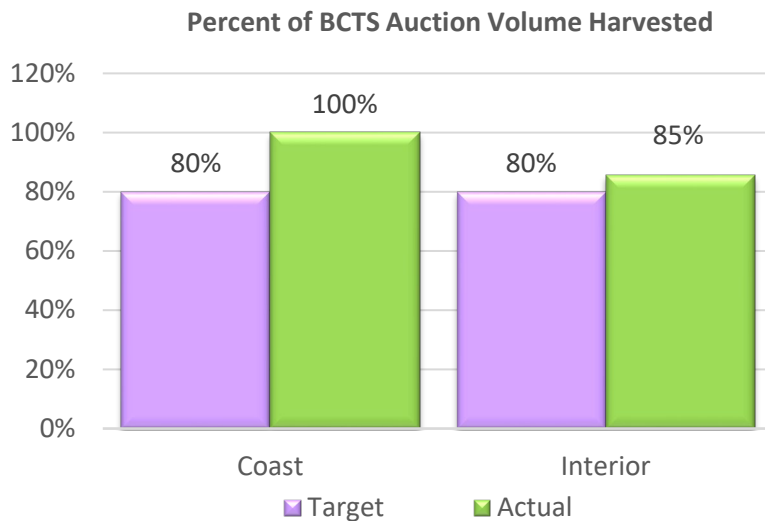


BCTS advertised 6.6% of the projected annual harvest volume on the Coast and 5.6% in the Interior.

BCTS is projecting to auction 12.8% of the projected harvest volume on the Coast and 11.6% in the Interior by fiscal 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 more than 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.

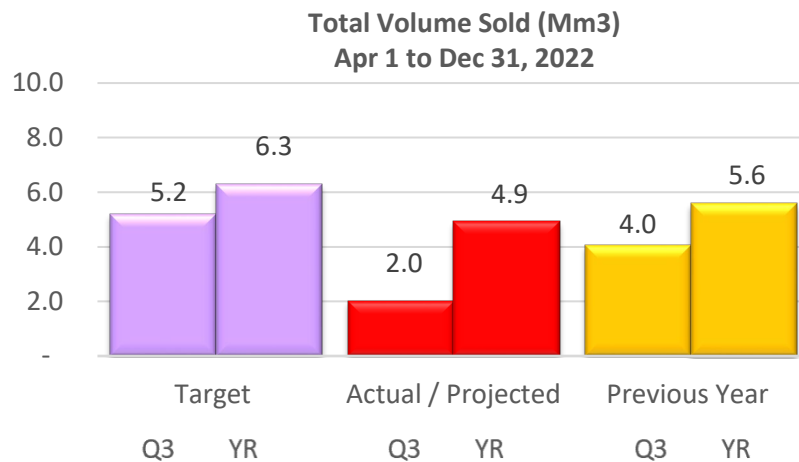
For the twelve-month period up to December 31, 2022, the BCTS auction volume harvested was within five percentage points of major licensees' harvest volume by species and grade more than 80% of the time. This indicates good representation of harvest volume provided by BCTS.

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 data quality performance rating for the third quarter was 94.9%.

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, 2022, BCTS sold 38% of its Q3 target. The impacts of the Old Growth Strategy, and reconciliation activities have hampered performance.

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

Quarter 3 timber volume sold by business area

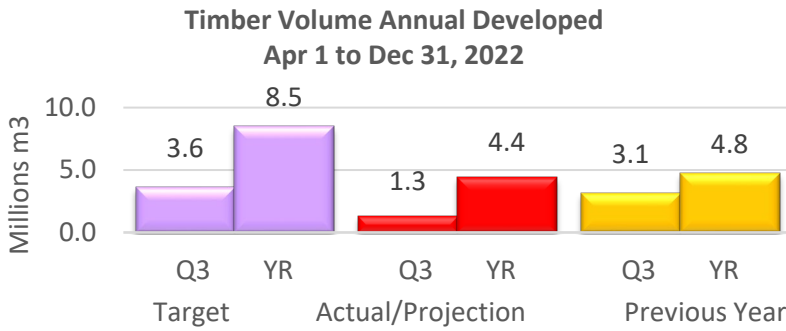
Volume Sold Coast	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CHINOOK	0.59	0.12	-0.47	-79%
SEAWARD	0.24	0.07	-0.16	-70%
STRAIT OF GEORGIA	0.46	0.33	-0.13	-29%
Coast Total	1.29	0.52	-0.71	-55%

Volume Sold North	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
BABINE	0.31	0.32	0.01	3%
PEACE LIARD	0.31	0.00	-0.31	-100%
PRINCE GEORGE	0.74	0.32	-0.42	-56%
SKEENA	0.38	0.03	-0.34	-91%
STUART NECHAKO	0.36	0.00	-0.36	-100%
North Total	2.09	0.68	-1.41	-68%

Volume Sold South	Target Mm ³	Achieved Mm ³	Variance Mm ³	Variance %
CARIBOO CHILCOTIN	0.40	0.09	-0.31	-80%
KAMLOOPS	0.28	0.16	-0.13	-45%
KOOTENAY	0.60	0.32	-0.28	-47%
OKANAGAN	0.54	0.25	-0.29	-54%
South Total	1.82	0.80	-1.02	-56%

OBJECTIVE 1: SELLING THE APPORTIONMENT

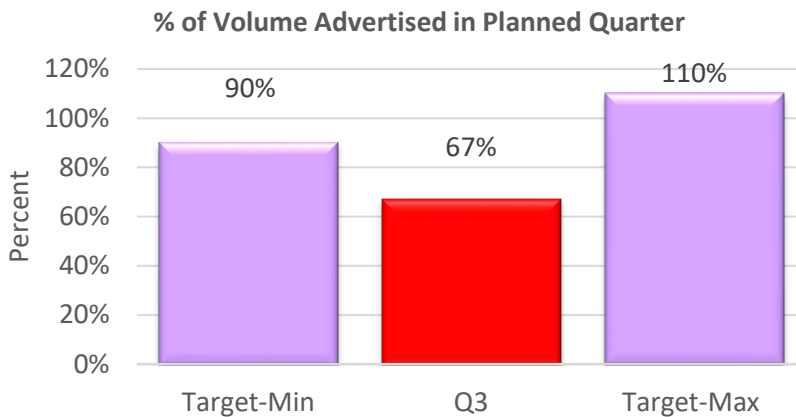
Develop sufficient timber to maximize timber volume offered and sold.



BCTS develops timber to have enough inventory for future auctions. To date, BCTS has declared 1.3 Mm³ of timber ready to sell.

At this time, BCTS is projecting it will fall short of its annual target by 49% by fiscal year-end.

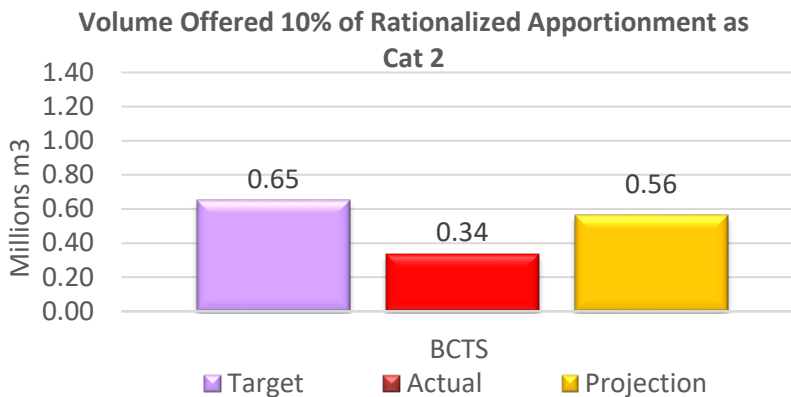
The volume of timber supplied to the market is reliable.



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

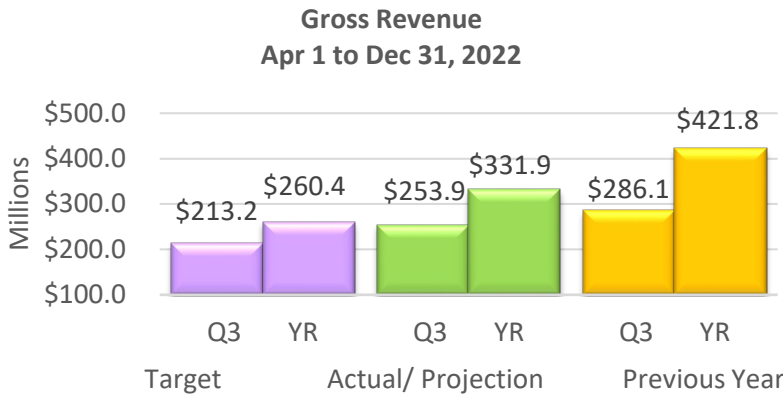
Offer 10% of rationalized apportionment as category 2 timber sales.



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 third quarter BCTS has offered 52% of its annual target volume to Category 2 registrants. BCTS is currently projecting to under achieve its annual target by fiscal year-end.

OBJECTIVE 2: GENERATING REVENUE

Gross revenue



Gross revenue to date was 19% above target, due to higher-than-expected stumpage rates paid on harvested timber.

BCTS is anticipating billed rates will remain higher; however, will overachieve its annual gross revenue target.

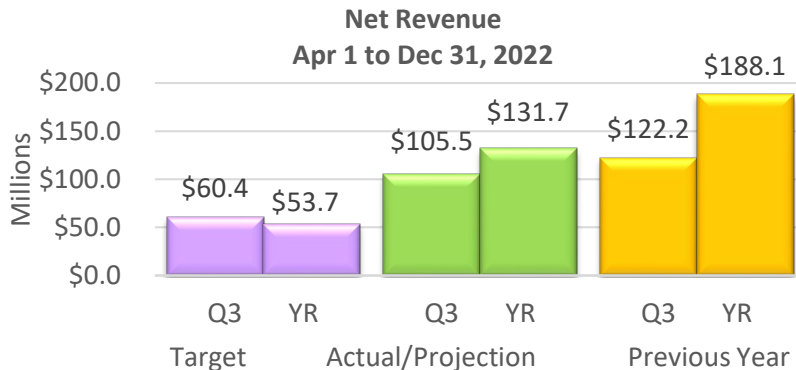
Less: capitalized expenditures



Capitalized expenditures for nine months were slightly below target.

At this time, BCTS is projecting its annual expenditures for the fiscal year will be under budget by \$6.5M mainly due to an old growth deferral and First Nations reconciliation activities.

Equals: net revenue



Net Revenue to date was \$45.1M over target.

As a result of 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 BCTS People Practices Working Group (PPWG) has analyzed the results of the 2022 WES and identified areas of opportunity to improve the work environment. The areas of opportunity include supervisory level management, teamwork, stress and workload and staffing practices. The PPWG met to develop a work plan to address the opportunities and will undertake the following projects:

- Continued support for the Supervisor’s Community of Practice.
- Improve the process for the onboarding of new employees.
- Create an “Innovation Portal” that manages the evaluation and implementation of employee suggested improvements.
- Organize a “Leadership Summit” that will provide training for the Supervisor’s Community of Practice.

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. BCTS is implementing a 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 90 days to 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:

- Market Pricing System continues to be our primary mandate
- Support the Value-Added sector
- Position BCTS as a “Partner of Choice”
- Rebrand BCTS

Support for the Market Pricing System continues to be our primary mandate. To continue to do this we will work to identify ways to increase BCTS volume. Support for the Value-Added Sector will require a move from high-volume based to high value-based forestry. Positioning BCTS to be a “Partner of Choice” for forest sector business arrangements will require us to identify barriers in current BCTS policy and processes. “Rebranding BCTS” will mean becoming proactive in our communication, increasing awareness of BCTS, increasing trust in BCTS, and improving our social license. It will require development of messages that resonate with interested parties and the public and developing a multi-pronged communication approach.



APPENDIX 1 – OUTPUTS

Key year-to-date results by Coast and Interior areas April 1 to December 31, 2022

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Advertised /Offered CAT Any (Mm³)	4.89	2.28	0.63	0.73	0.92
Add: Volume Advertised CAT2 (Mm ³)	0.42	0.33	0.06	0.00	0.27
Less: No Bid Sales/No Sale	0.11	0.47	0.15	0.10	0.22
Less: Timing Variance (note 1)	0.00	0.23	0.04	0.03	0.17
Plus: YE Timing Variance	0.00	0.10	0.02	0.08	0.00
Volume Sold (Mm³)	5.20	2.01	0.52	0.68	0.80
Volume Scaled (Harvested (Mm³))	3.65	3.95	1.19	1.44	1.32
Lump Sum Timber Sale Licences			Number (TSL)		Volume (Mm³)
• Advertised			44		0.812
• Less: No Bid/No Sale			(14)		(0.218)
• Total Sold			30		0.594

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, 2022		2022/23 First Quarter (Millions) April 1 - June 30		2022/23 Second Quarter (Millions) July 1 - Sept 30		2022/23 Third Quarter (Millions) Oct 1 - Dec 31
Revenue from External Sources		\$61.139		\$88.563		\$104.174
GROSS REVENUE		\$61.139		\$88.563		\$104.174
Capitalized Expenses:						
Cost of Timber Inventory Harvested						
Administration / Salaries	(\$4.884)		(\$6.216)		(\$9.301)	
Planning and Sales	(\$2.467)		(\$3.488)		(\$5.562)	
Access – Amortization	(\$9.764)		(\$9.563)		(\$9.264)	
Sub-Total Cost of Timber Harvested & Amortization		(\$17.115)		(\$19.266)		(\$27.127)
Other Costs						
Silviculture Liability Expenses	(\$13.738)		(\$28.762)		(\$13.750)	
Road and Bridge Maintenance	(\$1.910)		(\$3.944)		(\$3.876)	
Old Growth Costs	(\$0.022)		(\$0.043)		(\$0.074)	
Non-BCTS Roads	(\$0.022)		(\$0.235)		(\$0.654)	
Harvest Conformance	(\$0.078)		(\$0.140)		(\$0.115)	
Operational and Administrative Overhead	(\$6.126)		(\$6.415)		(\$8.953)	
Land Base Investment / FFT Recoveries	\$0.270		\$0.336		\$1.431	
Sec.108 Recoveries					\$1.962	
Sub-Total Other Costs		(\$21.611)		(\$39.203)		(\$24.029)
NET REVENUE/ (LOSS)		\$22.413		\$30.094		\$53.018
Note: Results are unaudited						

Selected Balance Sheet Items As at December 31, 2022		2022/23 First Quarter (Millions)		2022/23 Second Quarter (Millions)		2022/23 Third Quarter (Millions)
Silviculture Liability		(\$197.157)		(\$198.839)		(\$203.744)
Inventory Value of Developed Timber:						
Timber Inventory – Opening Balance	\$133.362		\$134.796		\$139.200	
Timber Developed	<u>\$8.785</u>		<u>\$14.135</u>		<u>\$13.900</u>	
Timber Available for Sale	\$142.147		\$148.931		\$153.100	
Cost of Timber Inventory Harvested	<u>(\$7.351)</u>		<u>(\$9.704)</u>		<u>(\$17.900)</u>	
Timber Inventory – Closing Balance		\$134.796		\$139.228		\$135.221
Work-In-Progress Inventory – Closing Balance		\$71.956		\$74.488		\$77.853
Roads:						
Book Value	\$943.189		\$950.198		\$959.946	
Accumulated Amortization	<u>(\$653.867)</u>		<u>(\$663.429)</u>		<u>(\$672.693)</u>	
Net Book Value		\$289.322		\$286.768		\$287.253
Deactivation Liability		(\$19.405)		(\$18.694)		(\$18.895)
Seed Inventory:		\$18.381		\$19.434		\$19.690
Note: Results are Unaudited						

