

CELEBRATING 20 YEARS



BCTS
BC Timber Sales

2003 - 2023

QUARTER PERFORMANCE REPORT

APRIL 1, 2023 – SEPTEMBER 30, 2023

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 2023/24. 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

BCTS implemented the government’s Old Growth Strategy on November 2, 2021. This had serious impacts on BCTS operations and performance during 2022-23 and 2023-24. At the end of the second quarter for FY24, BCTS is projecting that it will not achieve its key performance targets by fiscal year-end. Revenue for the period ending September 30, 2023 declined due to the decrease in harvest volume for the period.

FOREST SECTOR SAFETY

The Safety Working Group is one of the supported working groups and we have just completed successful safety audits in TBA, TST, TSK and Provincial Operations. The BASE report for Ministry of Forests and BC Timber Sales has been received. The submission will undergo a quality assurance review.



RECONCILIATION WITH INDIGENOUS PEOPLES

As part of the Ministry of Forests, BCTS continues to work towards the province’s goal of meaningful reconciliation with Indigenous Peoples and the implementation of the Declaration Act. BCTS has a goal to become the “partner of choice”, and BCTS’ Business Areas and Provincial Operations continue to engage First Nations to build ongoing, positive, and durable relationships. BCTS is also working collaboratively with First Nation communities, BC First Nations Forestry Council, and BC First Nations Leadership Council to improve how the program works with First Nations, resulting in increased partnerships and First Nations’ participation in the forest sector.



BCTS has an Indigenous Working Group and in May, the teams were assigned tasks regarding Improving, Indigenous related training for internal staff, First Nations’ contracts, goals for advancing reconciliation, and how BCTS can become involved with the Guardians.

BCTS is working together with the BC First Nations Forestry Council and Ministry of Forests’ Indigenous Relations Branch, to support the Indigenous Forestry Scholarship Program. BCTS has received the student applications for summer employment in 2024, and BCTS is looking to employ 13 students.

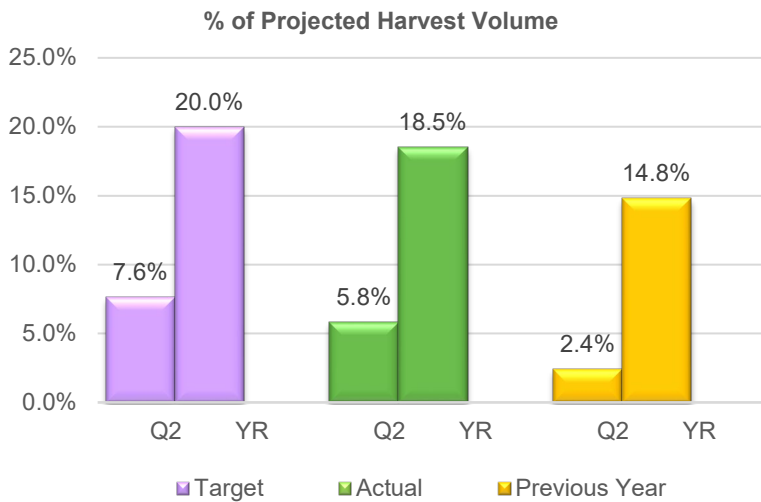
SUSTAINABLE FOREST MANAGEMENT

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. BCTS is an active member of the Western Canada SFI Implementation Committee.



GOAL: PROVIDE CREDIBLE DATA FOR MPS

BCTS auctioned volume as a percent of projected provincial harvest volume

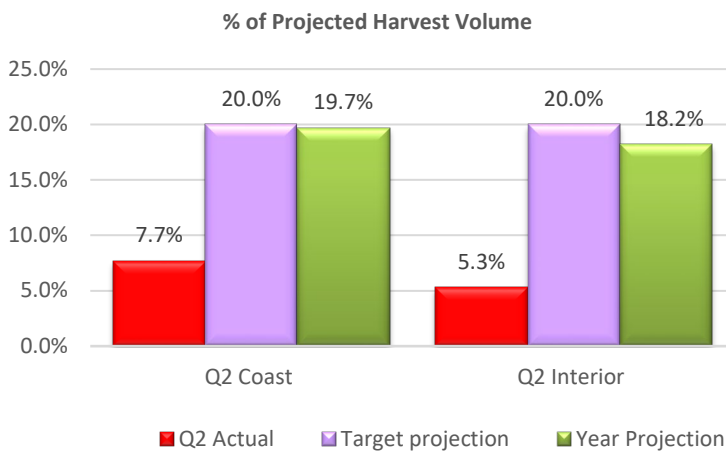


The volume of timber auctioned by BCTS must be at a level sufficient to support the Market-based Pricing System (MPS).

At the end of the quarter, BCTS had advertised 5.8% of the projected annual provincial harvest volume.

BCTS is projecting to auction 18.5% of the projected provincial harvest volume by year-end. This volume is under the required level of 20%.

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

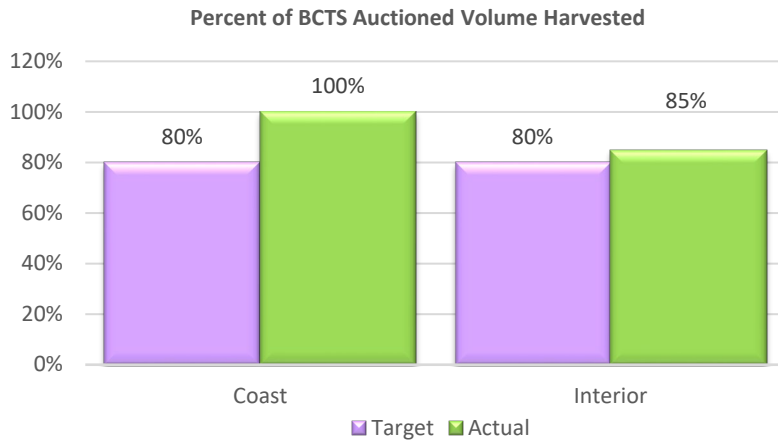


BCTS advertised 7.7% of the projected annual harvest volume on the Coast, and 5.3% in the Interior. This volume did not meet the requirements of the MPS.

At this time, BCTS is projecting that it will auction 19.7% for the Coast and 18.2% for the Interior by year end. This level of auction volume is under the required thresholds of 20%.

GOAL: PROVIDE 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 September 30, 2023, the BCTS auctioned 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.

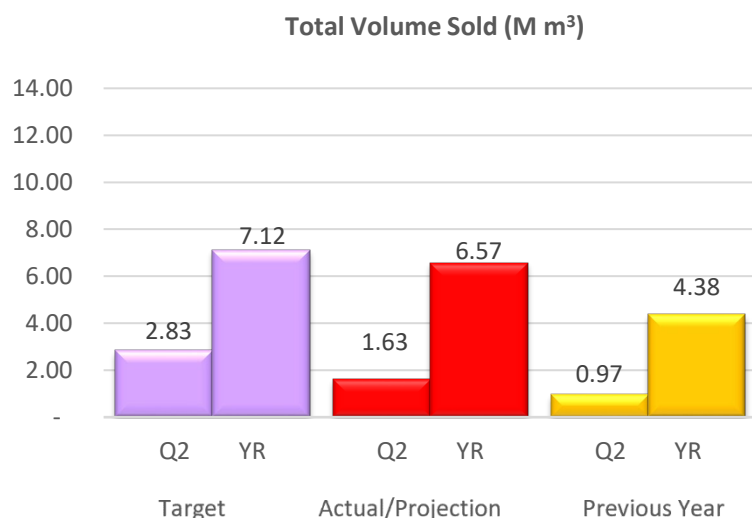
For BCTS to ensure it provides credible data to establish market-based stumpage rate it also must ensure its data is complete, accurate, and reliable.

BCTS implemented a data quality management system that is consistent with the International Standards Organization (ISO) 9001:2015 standard. Quarterly analysis of key BCTS data sets is completed to evaluate conformance of the data sets to their data standards. The target data quality standard is 100% conformance.

The overall average data quality performance rating for the second quarter was 94.6% conformance.

OBJECTIVE 1: SELL THE APPORTIONMENT

Timber Volume Sold (M m³)



Timber volume sold is a key measure that BCTS is selling its apportionment over the business cycle.

As of September 30, BCTS sold 1.6M m³, or 58% of target. The shortfall in sales for the quarter was 1.2M m³.

At this time, BCTS is projecting that it will sell 6.5M m³ by year-end, an under achievement of 0.6M m³.

Quarter 2 Timber Volume Sold by Business Area

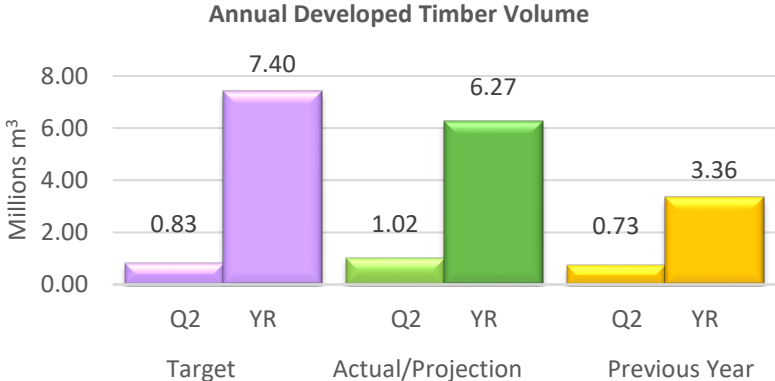
Volume Sold North	Target M m ³	Achieved M m ³	Variance M m ³	Variance %
BABINE	0.11	0.14	0.03	27%
PEACE LIARD	0.03	0.01	(0.02)	(66%)
PRINCE GEORGE	0.33	0.15	(0.18)	(55%)
SKEENA	0.35	0.05	(0.30)	(86%)
STUART NECHAKO	0.12	0.00	(0.12)	(100%)
North Total	0.94	0.35	(0.59)	(63%)

Volume Sold South	Target M m ³	Achieved M m ³	Variance M m ³	Variance %
CARIBOO CHILCOTIN	0.35	0.27	(0.08)	(23%)
KAMLOOPS	0.15	0.15	0.00	0%
KOOTENAY	0.47	0.33	(0.14)	(30%)
OKANAGAN	0.15	0.13	(0.02)	(13%)
South Total	1.12	0.88	(0.24)	(21%)

Volume Sold Coast	Target M m ³	Achieved M m ³	Variance M m ³	Variance %
CHINOOK	0.35	0.20	(0.15)	(43%)
SEAWARD	0.12	0.03	(0.09)	(75%)
STRAIT OF GEORGA	0.30	0.17	(0.13)	(43%)
Coast Total	0.77	0.40	(0.37)	(48%)

OBJECTIVE 1: SELL THE APPORTIONMENT

Develop sufficient timber to maximize timber volume offered and sold

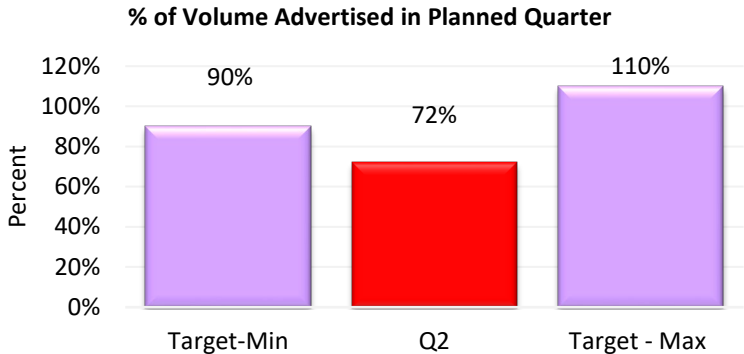


BCTS develops timber to have enough inventory for future auctions.

For the quarter ending September 30, BCTS declared 1.0M m³ of timber ready to sell.

At this time, BCTS is projecting that it will develop 6.3M m³ by year-end, a shortfall of 1.1M m³.

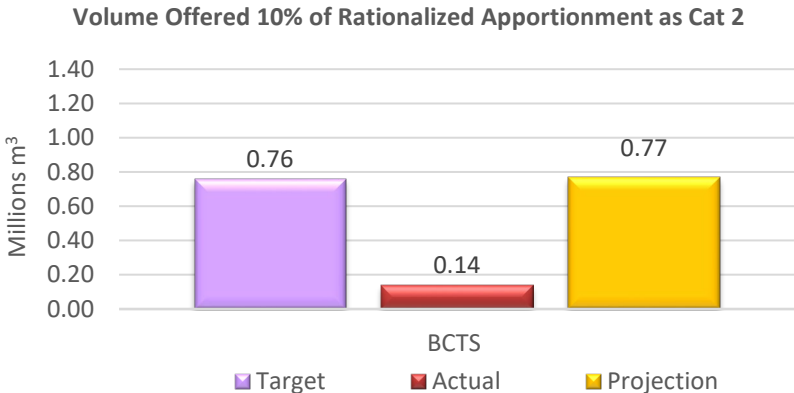
The volume of timber supplied to the market is reliable



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 did not achieve its threshold target for reliability of timber supply.

Offer 10% of Rationalized Apportionment as Category 2 Timber Sales

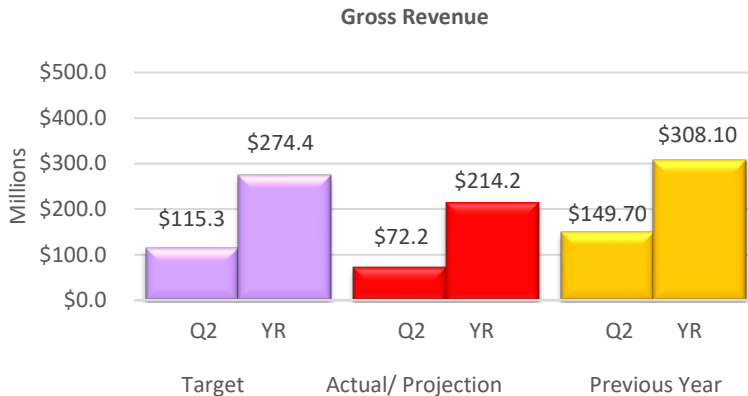


A key BCTS strategy is to provide open access to Crown timber for non-tenured or insufficiently tenured timber processing facilities. This promotes local employment and supports the value-added sector.

During the quarter, BCTS offered 0.14M m³ category 2 timber. BCTS is projecting that it will achieve its annual target of 0.76M m³.

OBJECTIVE 2: GENERATE REVENUE

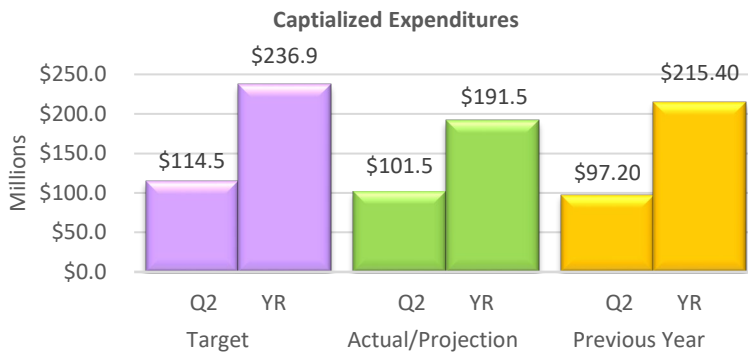
Gross Revenue



Gross revenue for the quarter was \$72.2M. It was \$43.1M under target, due to a sharp decline in harvest volume for the period.

At this time, BCTS is projecting that the annual gross revenue will be \$214.2M, a shortfall of \$60.2M.

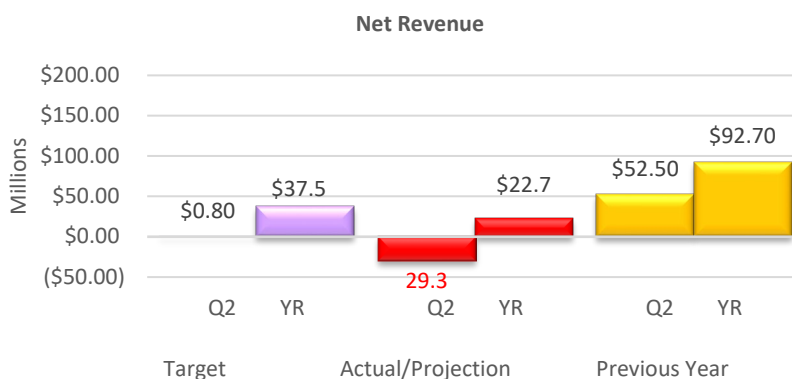
Less: Capitalized Expenditures



Capitalized expenditures for the quarter were under target by \$13.0M, mainly because of outstanding payments at the end of the period.

BCTS is projecting that its annual expenditures will be below target for the year.

Equals: Net Revenue



Net Loss for the period ending September 30 was (\$29.3M). The loss is mainly due to a decline in harvest volume.

At this time, BCTS is projecting that it will not achieve its annual net revenue target.

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

Facilitated Lean projects were held throughout the province, some major ones included:

Kamloops Business Area development project, Access Management Deactivation and Road Retirement Project, Changing the Plan Project, The Cruised Based Sale Reconciliation Project, and most recently, The Seedling Services and Finance Project.

Pursue excellence in operations, practices, and processes

The Forest Technologist Entry Level Program (FTELP) is recruiting its ninth cohort of participants this quarter. Recruitment has taken place over the month of October with candidates set to start June 2024.

This is a 2-year, on-the-job training program for Forest Technology Diploma or Degree graduates, followed by at least two (2) years of full-time regular employment, ideally in one of BCTS' northern business area locations.

BCTS' next annual Safe Companies Maintenance Audit is scheduled to be completed by November 2023. A score of 96% was achieved in the prior year's audit.

The Safety Working Group (SWG) is one of the 11 working groups within BCTS. The SWG just completed successful safety audits in TBA, TST, TSK and Provincial Operations. The BASE report for Ministry of Forests and BC Timber Sales has been received. The submission will undergo a quality assurance review.

OBJECTIVE 3: CONTINUOUS IMPROVEMENT

Pursue Excellence

The Communications Working Group (CWG) continues to implement projects to improve communication within BCTS. Hosting a monthly All-Staff Forum for all BCTS staff to ask questions to the executive team.

Some completed CWG projects include: supporting the implementation of the Value-Added Manufacturing program and developing associated communications materials, supporting enhancing BCTS by maintaining a presence at several tradeshow and conventions, posting informative videos to YouTube, updating BCTS brochures, and becoming proactive in communication to increase trust and improve social license.



APPENDIX 1 – OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1 to September 30, 2023

	Target	Total	Northern Interior	Southern Interior	Coast
Volume Advertised/Offered CAT Any (M m³)	2.62	2.05	0.61	0.83	0.61
Add: Volume Advertised CAT2 (M m ³)	0.26	0.14	0.05	0.09	0.00
Less: No Bid Sales/No Sale	(0.05)	(0.49)	(0.29)	(0.04)	(0.16)
Less: Timing Variance (note 1)	(0.00)	(0.12)	(0.07)	(0.00)	(0.05)
Plus: Year-end Timing Variance	0.00	0.05	0.05	0.00	0.00
Volume Sold (M m³)	2.83	1.63	0.35	0.88	0.40
Volume Harvested (Scaled (M m³))	1.70	0.42	0.09	0.14	0.19
Lump Sum Timber Sale Licences			Number (TSL)		Volume (M m³)
• Advertised			19		0.32
• Less: No Bid/No Sale			(6)		(0.10)
• Total Sold			13		0.22

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

APPENDIX 2 – FINANCIAL PERFORMANCE

April 1 – September 30, 2023 (Millions)		2022/23 Second Quarter April 1-Sept 30		2023/24 Second Quarter April 1-Sept 30	% change Q2 YTD FY24-FY23
Revenue from External Sources		\$149.7		\$72.2	
Gross Revenue		\$149.7		\$72.7	(51.7%)
Capitalized Expenses:					
Cost of Timber Inventory Harvested					
Administration / Salaries	(\$11.1)		(\$6.7)		
Planning & Sales	(\$5.9)		(4.7)		
Access – Amortization	(\$19.3)		(\$22.1)		
Sub-total Cost of Timber Harvested & Amortization		<u>(\$36.3)</u>		<u>(\$33.6)</u>	7.4%
Period Costs					
Administrative Overhead	(\$12.5)		(\$15.7)		
Silviculture Liability Expenses	(\$42.5)		(\$34.1)		
Wildfire Liability	\$0.00		(\$10.0)		
Harvest Conformance	(\$0.2)		(\$0.2)		
Old Growth Verification Costs	(\$0.1)		(\$0.1)		
Road & Bridge Maintenance	(\$5.8)		(\$5.2)		
Non-BCTS Roads	(\$0.2)		(\$0.1)		
Forest Investment Account (Expenditure)	(\$6.1)		(\$6.3)		
Forest Investment Account (Recovery)	\$1.9		\$2.4		
Section 108 (Recovery)	\$0.0		\$1.6		
Sub-Total Other Costs		<u>(\$65.5)</u>		<u>(\$67.8)</u>	(3.5%)
Net Revenue/ (Loss)		\$47.7		(\$29.2)	(161.3%)

APPENDIX 2 - FINANCIAL PERFORMANCE CONT..

Selected Balance Sheet Items As at September 30, 2023		2022/23 Second Quarter (Millions)		2023/24 Second Quarter (Millions)	% Change Q2YTD FY24-FY23
Silviculture Liability		(\$198.8)		(\$212.1)	(6.7%)
Inventory Value of Developed Timber					
Timber Inventory – Opening Balance	\$133.3		\$140.8		
Timber Developed	<u>\$22.9</u>		<u>\$26.2</u>		
Timber Available for Sale	<u>\$156.2</u>		<u>\$167.1</u>		
Cost of Timber Inventory Harvested	<u>(\$17.0)</u>		<u>(\$11.5)</u>		
Timber Inventory – Closing Balance		<u>\$139.2</u>		<u>\$155.5</u>	11.7%
Work-in-progress Inventory – Closing Balance		\$74.4		\$69.5	(6.6%)
Roads					
Book Value	\$950.1		\$967.8		
Accumulated Amortization	<u>(\$663.4)</u>		<u>(\$689.9)</u>		
Net Book Value		\$286.7		\$277.9	(3.1%)
Deactivation Liability		(\$18.6)		(\$23.4)	(25.3%)
Seed Inventory		\$19.4		\$19.3	(0.4%)

Note: Results are Unaudited

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