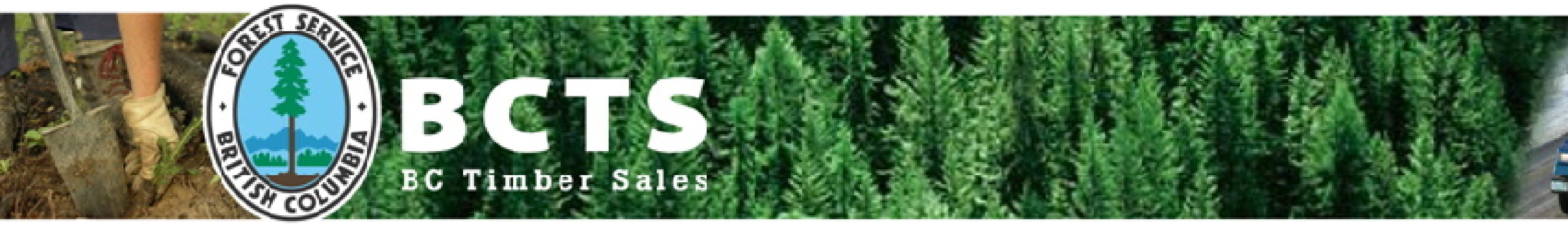

QUARTERLY PERFORMANCE REPORT

for the period April 1 to June 30, 2012
Fiscal 2012/13

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INTRODUCTION

BC Timber Sales (BCTS) presents its first quarter performance report for 2012/13. Quarterly performance reports are a key part of the BC Timber Sales Performance Management and Accountability Framework.

Business Goals

BC Timber Sales has four business goals:

Consistent with safe practices, sound forest management, and maintaining effective relationships BC Timber Sales…

1. Is a high-performing organization with skilled, motivated and proud people.
2. Provides a credible reference point for costs and pricing of timber harvested from public land in B.C.
3. Provides a reliable supply of timber to the market, through open and competitive auctions subject to meeting the requirements of cost and price referencing stated in Goal 2.
4. Maximizes net revenue for the Province subject to the requirements of cost and price referencing stated in Goal 2 and supplying timber for auction stated in Goal 3.

Key Outcome Indicators

The success of BCTS in achieving its business goals is measured through three key outcome indicators.

- BC Timber Sales' timber volume advertised as a percent of provincial harvest volume.
- Volume of timber sold.
- Net revenue earned.

QUARTERLY PERFORMANCE HIGHLIGHTS

Overall Performance: Summary of Highlights

Fiscal Year 2012/13 was off to a slow start for the first quarter. Poor weather, as well as softening market demand in the Coast and North regions resulted in lower timber volumes being advertized, sold and harvested than expected. Despite this, higher stumpage rates paid yielded slightly higher gross revenue than expected for the quarter. BCTS is projecting to achieve substantially all of its performance targets for the year.

Safety: Summary of Highlights

BC Timber Sales successfully completed an external re-certification audit in the first quarter. As a result of the successful audit, BC Timber Sales' SAFE Company certification has been extended through 2015. The audit report is currently being reviewed to identify continual improvement opportunities.

Forest Management: Summary of Highlights

BCTS currently has 99% of its apportioned volume certified to one of three major forest certification standards (CSA, SFI and FSC). For the first quarter:

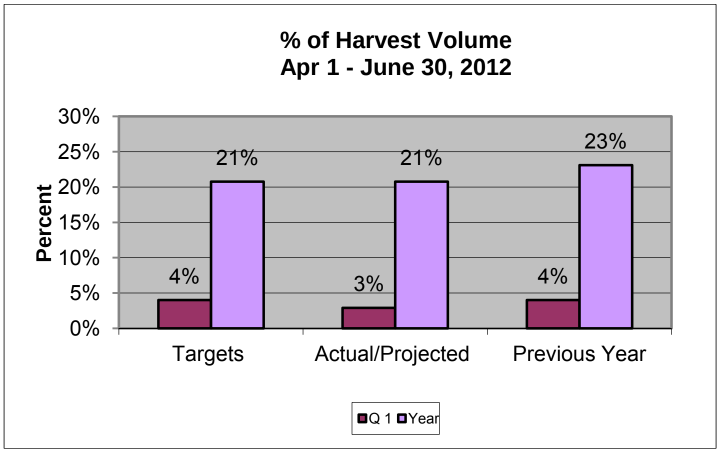
- The Prince George Business Area (TPG) is working towards recertifying its operations from the CSA Z809 Standard to the SFI 2010-2014 Standard under the BCTS provincial SFI multisite certificate. Plans are to have the changes in place by Dec 31, 2012. The plans will also include certification of TPG operations in the Robson Valley TSA and TFL 53 to the SFI standard. This will bring BCTS provincial certification to 100% of its apportioned volume.
- The Forest Stewardship Council (FSC) of Canada reinstated the FSC Forest Management/Chain of Custody certification for the Coast Forest Conservation Initiative (CFCI), effective June 29, 2012. The CFCI operating companies are Western Forest Products, Interfor and BCTS Seaward-Tlasta business area. Audit findings related to process elements. None of the findings were related to on the ground practices or environmental damage. During the FSC suspension period, the BCTS Seaward-Tlasta operations continued to be certified to the SFI standard.

QUARTERLY PERFORMANCE HIGHLIGHTS

High Performing Organization: Summary of Highlights

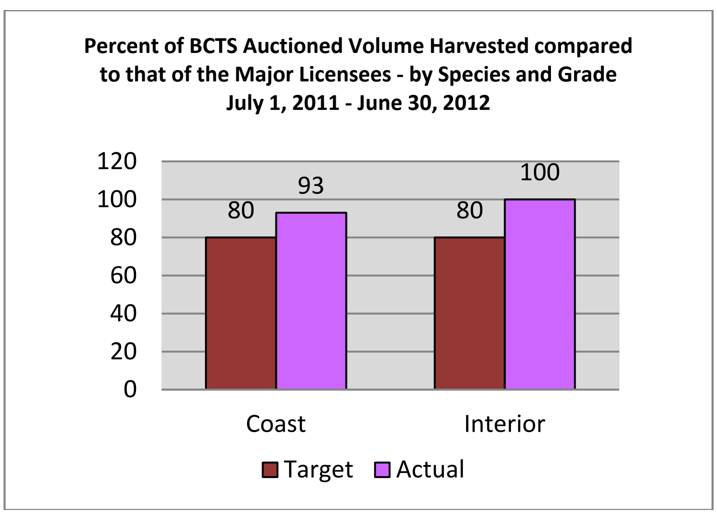
As part of our commitment to continuous improvement and the ever changing natural resources management landscape BCTS began a review of how it can not only continue to provide value, but also how it might increase its value to the province. The BCTS Opportunities Review is looking for incremental opportunities to expand or enhance business internally within existing business lines. The review will also explore activities currently external to BCTS which might enhance the BCTS mandate and overall value to government. Interviews with key individuals, both internal and external to government, as part of an information gathering process began in June. This Review will help shape the future for BC Timber Sales and is expected to be complete by late fall.

BCTS auction volume as a percent of provincial harvest volume



The volume of timber advertised by BCTS must be at a level sufficient to support the Market-based Pricing system (MPS). BCTS advertised 3% of the annual provincial harvest volume versus a target of 4% in the first quarter. This was one percentage point less than last year's first quarter performance and its target for this quarter. BCTS is projecting to have advertised 21% of the provincial harvest volume by year end.

Timber Sales sold, in total, provide sufficient data to support the market pricing system.



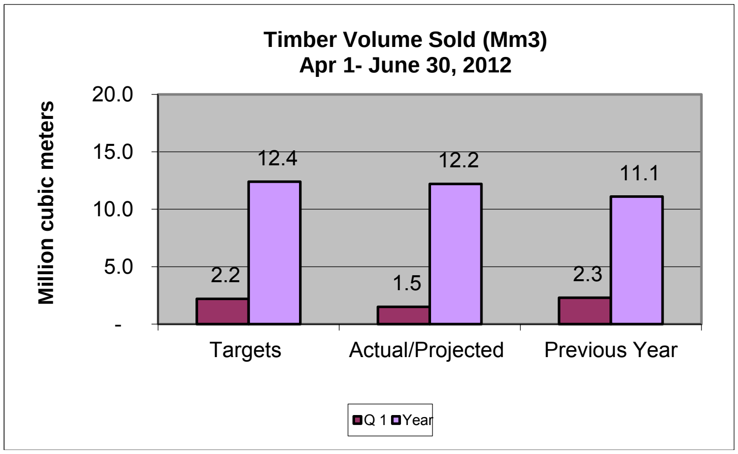
For BCTS to ensure it provides credible data to establish market-based stumpage rate it has to develop and auction sufficient timber sales to provide statistically credible data to the Market Pricing System. For the year ended June 30, 2012 BCTS has exceeded its targets for both the interior and the coast regions. BCTS auction volume harvested was within 10 percentage points of the Major Licensee harvest volume by species and grade over 80% of the time.

There is no single measure that completely demonstrates our success in providing sufficient data. However, the percent of volume harvested from BCTS auctioned volume as a percentage of the total timber volume harvested from BCTS auctioned volume is within 10 percentage points of the volume harvested by the Major Licensees as a percentage of the total timber volume harvested by the Major Licensees for each major species and grade 80% of the time is a strong indicator of our success in auctioning timber that holistically is representative of the timber species and grades being harvested by the Major Licensees.

PROVIDING A RELIABLE SUPPLY OF TIMBER

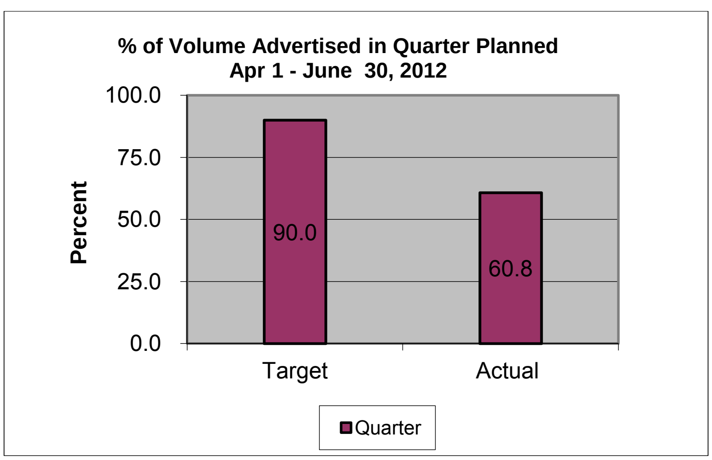
to the market, through open and competitive auctions.

Timber Volume Sold



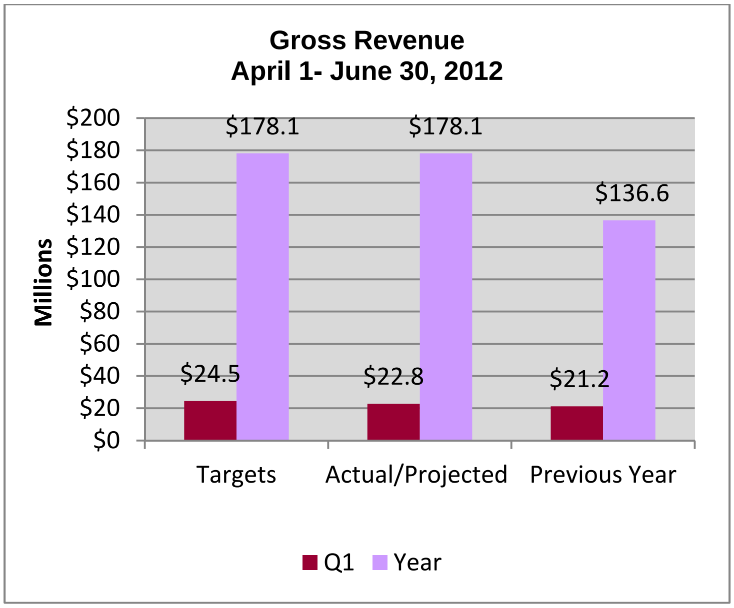
A key indicator that BCTS is providing a reliable supply of timber to the market is the total timber volume it sells. BCTS sold 1.5 million cubic metres of timber through competitive auctions in the first quarter. This is 32% less than target and 35% less than the prior year's performance. Weak market demand and operational issues delayed the advertising of a number Timber Sale Licenses in the quarter. BCTS is expecting sales to pick up in the second quarter and is projecting to substantially achieve its year-end target.

The volume of timber supplied to the market is reliable



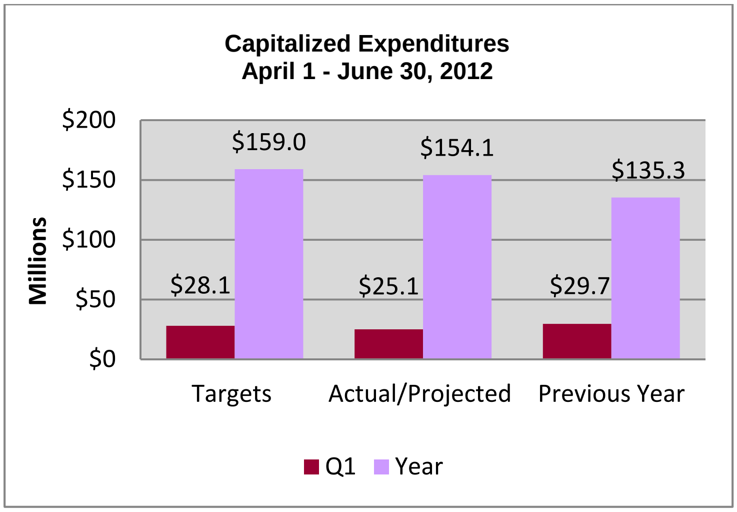
The percent of timber volume advertised in the quarter planned is another indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. In the first quarter, nine of 12 business areas under achieved as a result of delays due to adjusting for market demand and various operational issues. In total, BCTS advertised only 61% of timber volume planned. The delayed volume will be advertised in future quarters.

Gross Revenue



BCTS gross revenue for the first quarter was $22.8 million – 7% less than target. Though the actual billed rates were higher than projected, timber volume harvested was down due to soft market demand in the Coastal and Northern regions. Despite the slow start BCTS is projecting to achieve its target revenue for the year. Compared to the previous year gross revenue earned has increased $1.8 million or 8%.

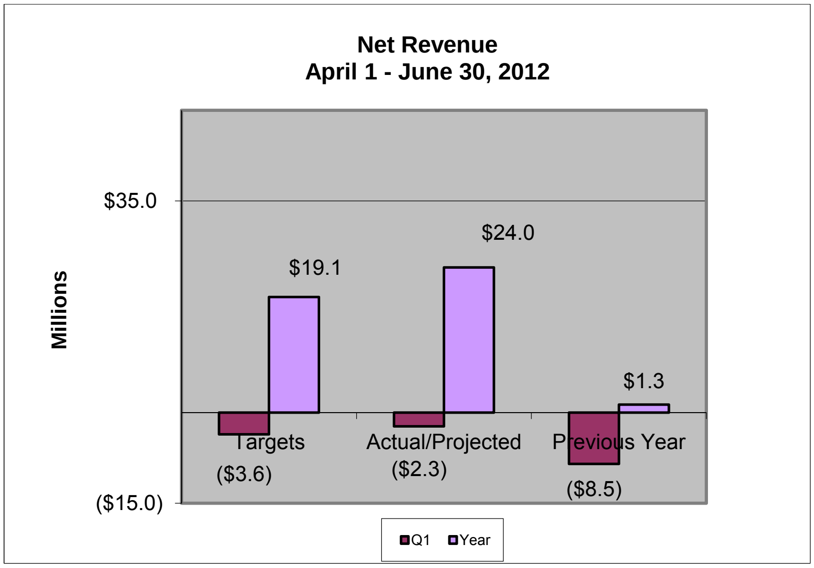
Less: Capitalized Expenditures



Capitalized expenditures for the first quarter were $4.6 million lower than the previous year and $3 million lower than target due to lower harvest volumes and delayed start up caused by poor weather conditions.

BCTS is projecting year end expenditures of $154.1 or 3% under target due to continued cost savings strategies and lower than expected harvest volumes.

Equals: Net Revenue



First quarter net revenue loss was $1.3M less than projected. Higher than expected billed rates being paid, combined with cost savings are expected to result in net revenue of $24M by year end.

APPENDIX 1 - OUTPUTS

Key Quarterly Results by Coast and Interior Areas April 1 to June 30th, 2012

	Total	Coast	Northern Interior	Southern Interior
Volume Offered (Mm3)	1.9	0.4	0.8	0.7
Less: No Bid Sales/No Sale	(0.3)	(0.0)	(0.3)	(0.0)
Less: Timing Variance (note 1)	(0.4)	(0.0)	(0.2)	(0.2)
Plus: YE Timing Variance	0.3	0.1	0.1	0.1
Volume Sold (Mm3)	1.5	0.5	0.4	0.6
Volume Harvested (Mm3)	1.1	0.5	0.3	0.3
Roads (km constructed)	5.0	5.0	0.0	0.0
Bridges (number installed)	5	4	1	0
Deactivation (km deactivated)	3.0	1.4	0.6	1.0
Site Prep (Ha)	226	0	70	156
Planting (Millions of seedlings planted)	17.8	1.7	5.6	10.5

Lump Sum Timber Sale Licences	Number (TSL)	Volume (Mm3)
• Advertised	38	1.22
• Less: No Bid/No Sale	(8)	(0.26)
• Total Sold	30	0.96

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

APPENDIX 2 - REPORT ON FINANCIAL PERFORMANCE

April 1, 2012 – June 30, 2012

		2011/12 First Quarter (Millions)		2012/13 First Quarter (Millions)
Total Revenues		$21.2		$22.8
GROSS REVENUE		**$21.2**		**$22.8**
Capitalized Expenses:				
Cost of Timber Inventory Harvested				
Administration / Salaries	$3.4		$2.8	
Planning & Sales	$3.5		$2.1	
Access - Amortization	$7.5		$7.8	
Sub-Total Cost of Timber Inventory Harvested		**($14.4)**		**($12.7)**
Period Costs				
Silviculture Liability Expense	$8.7		$4.9	
Road & Bridge Maintenance	$0.5		$1.0	
Road Deactivation	$0.0		$0.0	
Harvest Conformance	$0.0		$0.0	
Administrative Overhead	$6.1		$6.5	
Forest Investment Account	$0.2		$0.5	
Forest Investment Account (Recovered)	($0.2)		($0.5)	
Sub-Total Period Costs		**($15.3)**		**($12.4)**
NET REVENUE/(LOSS)		**($ 8.5)**		**($ 2.3)**

Selected Balance Sheet Items

	June 30 2011/12 (Millions)		June 30 2012/13 (Millions)	
Silviculture Liability		**$ 59.8**		**$ 84.4**
Inventory Value of Developed Timber				
Timber Inventory – Opening Balance	$121.1		$124.5	
Timber Developed	$ 7.3		$ 7.6	
Timber Available for Sale	$128.4		$132.1	
Cost of Timber Inventory Harvested	($ 6.9)		($ 4.9)	
Timber Inventory – Closing Balance		**$121.5**		**$127.2**
Roads				
Book Value	$608.1		$694.6	
Accumulated Amortization	($403.2)		($433.0)	
Net Book Value		**$276.9**		**$261.6**
Deactivation Liability		**$ 7.6**		**$ 4.2**
Seed Inventory		**$ 21.4**		**$ 22.0**

(Unaudited)

APPENDIX 3 - Key MPS Variables Distribution Comparisons—Interior

Table 1: Interior BCTS Representativeness Analysis* - Grades
July 1, 2011 to June 30, 2012

		Tenure			
Species Group	Grade	BCTS Auctions**		Major Licences***	
Coniferous	1	531896.5	25%	4469094.3	24%
	2	1063842.9	49%	9286968.8	50%
	3		0%		0%
	4	521539.1	24%	3834012.8	21%
	5		0%		0%
	6	17825.7	1%	120088.7	1%
	blank		0%		0%
Coniferous Total		2135104.1	99%	17710164.6	96%
Deciduous	1	466.9	0%	20252.2	0%
	2	6379.3	0%	297872.9	2%
	3		0%	0.0	0%
	4	13838.6	1%	403512.7	2%
	5	0.0	0%	0.0	0%
	6	498.5	0%	8465.3	0%
	blank	0.0	0%	0.0	0%
Deciduous Total		21183.3	1%	730103.1	4%
Interior Total		2156287.4	100%	18440267.7	100%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.
** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'
*** Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

Table 2: Interior BCTS Representativeness Analysis* - Species
July 1, 2011 to June 30, 2012

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***	
Coniferous	Balsam	190097.0	9%	1992116.6	11%
	Cedar	116012.8	5%	496363.5	3%
	Cypress	109.0	0%	43.2	0%
	Fir	232220.2	11%	1907057.1	10%
	Hemlock	135246.7	6%	801789.6	4%
	Larch	69065.2	3%	308018.2	2%
	Lodge-Pine	972902.9	45%	7180614.8	39%
	Spruce	410371.3	19%	4948487.3	27%
	White Bark Pine	0.4	0%	1862.6	0%
	White Pine	8775.9	0%	43190.0	0%
	Yellow Pine	302.7	0%	30621.7	
	Yew		0%		0%
Coniferous Total		2135104.1	99%	17710164.6	96%
Deciduous	Alder	0.0	0%	9.2	0%
	Aspen	17820.6	1%	642442.9	3%
	Birch	1342.2	0%	4376.6	0%
	Cottonwood	2020.5	0%	83274.4	0%
	Maple		0%	0.0	0%
Deciduous Total		21183.3	1%	730103.1	4%
Interior Total		2156287.4	100.00%	18440267.7	100%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.
** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'
*** Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

APPENDIX 3- Key MPS Variables Distribution Comparisons— Coast

Table 3: Coast BCTS Representativeness Analysis* - Grades
July 1, 2011 to June 30, 2012

		Tenure			
SPECIES_GROUP	GRADE	BCTS Auctions**		Major ***	
Coniferous	B	844.3	0%	14929.2	0%
	C	11742.7	1%	150933.9	1%
	D	12922.0	1%	185240.1	2%
	E	82.7	0%	3968.9	0%
	F	12913.4	1%	220245.0	2%
	G	125.2	0%	7301.5	0%
	H	260781.7	18%	2618298.1	22%
	I	150382.9	10%	1411438.2	12%
	J	672225.5	46%	5064762.7	42%
	K	4707.6	0%	138102.1	1%
	L	9729.7	1%	201912.5	2%
	M	9543.2	1%	116764.3	1%
	U	206270.1	14%	1280567.7	11%
	W	1.7	0%		0%
	X	66096.7	4%	373166.5	3%
	Y	44930.4	3%	293240.5	2%
Coniferous Total		1463299.9	99%	12080871.4	99%
Deciduous	W	7388.7	1%	61163.4	1%
	Y	687.7	0%	1293.6	0%
Deciduous Total		8076.4	1%	62457.0	1%
Coast Total		1471376.3	100%	12143328.4	100%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Coast grades only.
** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'
*** Majors = FL, TFL, TL, FL (sec 47.3) BCTS excluded.

Table 4: Coast BCTS Representativeness Analysis* - Species
July 1, 2011 to June 30, 2012

		Tenure			
SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***	
Coniferous	Balsam	142425.3	10%	1388834.7	11%
	Cedar	246330.3	17%	2493227.3	21%
	Cypress	34114.1	2%	340437.3	3%
	Fir	502555.4	34%	2551071.8	21%
	Hemlock	524674.8	36%	5101979.9	42%
	Lodge-Pine	4137.0	0%	5330.0	0%
	Spruce	8276.0	1%	194259.8	2%
	White Pine	784.2	0%	5728.1	0%
	Yellow Pine	0.5	0%	2.4	0%
	Yew	2.2	0%		0%
Coniferous Total		1463299.9	99%	12080871.4	99%
Deciduous	Alder	5459.7	0%	47525.0	0%
	Arbutus		0%		0%
	Birch	617.8	0%	412.9	0%
	Cottonwood	322.6	0%	11482.9	0%
	Maple	1676.3	0%	3036.3	0%
Deciduous Total		8076.4	1%	62457.0	1%
Coast Total		1471376.3	100%	12143328.4	100%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Coast grades only.
** BCTS Sec. 20 = file types 'A20', 'A27' and 'B20' - BCTS indicator = 'Y'
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