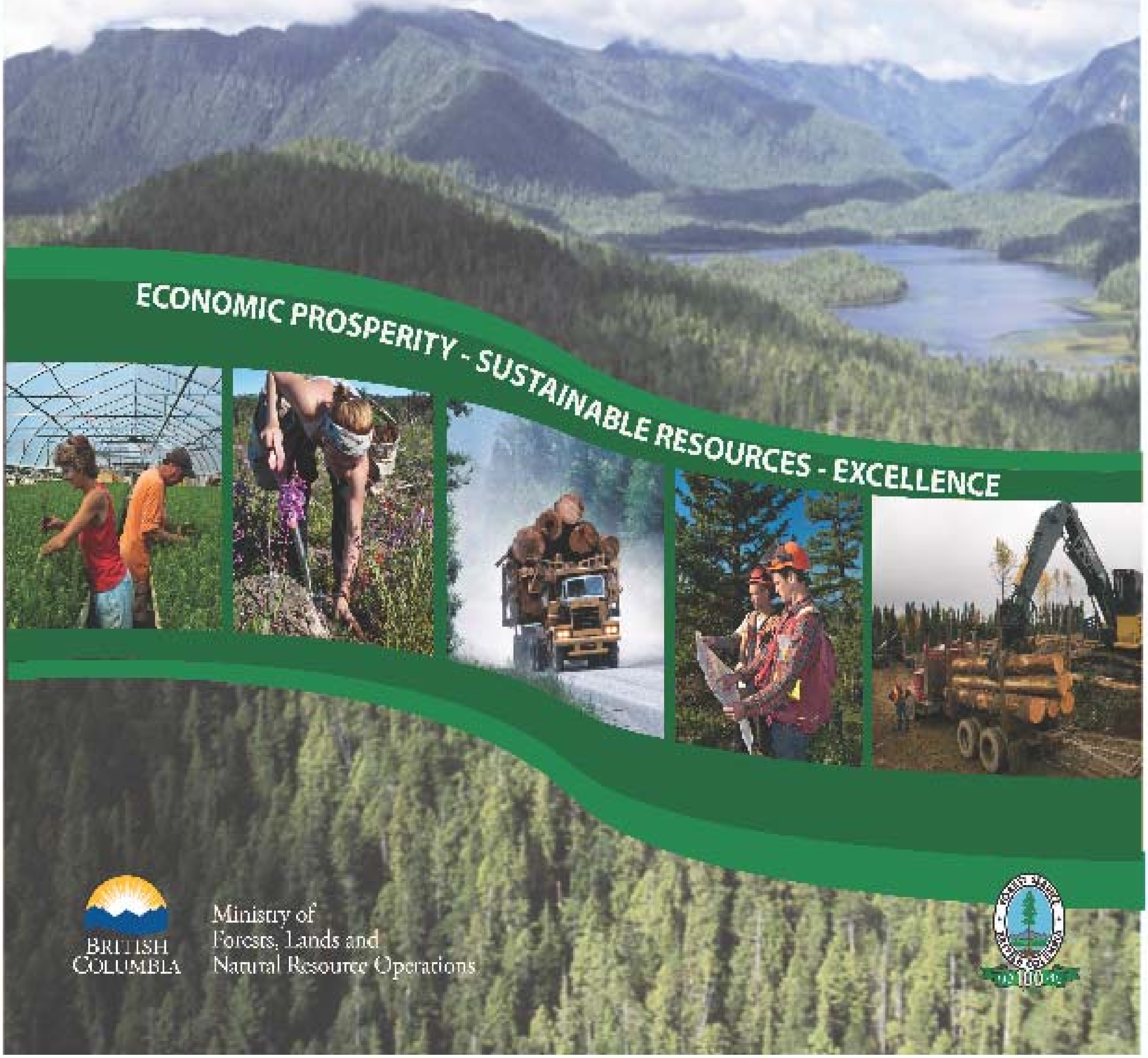
BC Timber Sales

QUARTERLY PERFORMANCE REPORT

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



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INTRODUCTION

BC Timber Sales (BCTS) presents its second 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.

Business Outcomes

BC Timber Sales' principles and goals support the following outcomes:

- **Increased safety awareness and a culture of safety in all its practices and operations.**
- **BCTS is recognized as demonstrating sound forest management**
- **Mutually beneficial working relationships between BCTS and its stakeholders**

1. Long term success of BCTS.
2. The province's timber Market Pricing System and the Softwood Lumber Agreement with the USA.
3. Rural economies, jobs and families.
4. Maximum value for asset and net revenue to support government priorities.

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 projected provincial harvest volume.
- Volume of timber sold.
- Net revenue earned.

QUARTERLY PERFORMANCE HIGHLIGHTS

Overall Performance: Summary of Highlights

The second quarter showed an improvement over the first quarter. Gross revenue earned was higher than expected for the quarter and BCTS is projecting to exceed its Net Revenue target for the year. However, operational issues, economics and excess supply in some areas continue to delay achievement of target volume sold. It is expected that government hiring restrictions will challenge our ability to meet production targets. Despite this, BCTS is still projecting to achieve most of its performance targets for the year.

Safety: Summary of Highlights

BCTS continues to maintain its SAFE Company Certification and collaborate with industry through the BC Forest Safety Council to promote the achievement of safe and healthy workplaces within the ministry and the forest sector. BCTS has undertaken a Management Review of its safety program. The Management Review will shape the goals and objectives of the safety program for the coming year.

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).

- 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 Chinook Business Area has successfully concluded the first annual audit of its Forest Stewardship Council (FSC) certification of its Haida Gwaii operations in partnership with the Haida Nation's Taan Forest Ltd. The initial FSC certification was received in November of 2011.

BCTS continues to actively engage with industry and government colleagues in a number of forestry initiatives such as Ecosystem Based Management, Species at Risk Management, Forest Carbon Offsets and Climate Adaptation

QUARTERLY PERFORMANCE HIGHLIGHTS

PREMIER'S AWARD
INNOVATION 2007/08

High Performing Organization: Summary of Highlights

The BCTS Opportunities Review, started earlier this year as a means of evaluating the services BCTS currently provides and looking for opportunities to improve our business, is nearing completion. Approximately 70 parties were interviewed across the province this summer involving over 110 individual participants. As well, a survey was sent to all BCTS staff with 387 responding, an overwhelming 72% return rate.

The draft report will be presented to the Steering Committee and the Timber Sale Leadership Team by mid November. The final report, with its findings and recommendations, is expected to be released either later this year.

A number of training and development activities are also underway. A BCTS Professional Development Framework was released in the summer. The framework set outs consistent policies and support for professional development across the organization. In addition a BCTS Training Matrix has been developed to ensure organizational consistency in training.

Contract Management training within BCTS is continuing towards a year-end target of 90% of staff having the training required for their positions. BCTS delivers contract management training internally with BCTS staff in collaboration with the Public Service Agency.

An Instructional Skills Workshop was offered in Prince George to build facilitator capacity; five BCTS staff attended to enable internal delivery of future Resource Clerk and contract management training. BCTS is also collaborating with the Ministry exploring shared training needs and opportunities on a sector wide basis.

QUARTERLY PERFORMANCE HIGHLIGHTS

Effective Relationships: Summary of Highlights

Effectiveness in building and maintaining strong relationships is critical to delivering superior, enduring performance. BC Timber Sales has developed a number of service and good neighbour agreements across the province in order to specifically strengthen relationships with First Nations.

As an example, in our Kamloops and Strait of Georgia Business Areas joint Forest Stewardship Plans are now in place with some First Nation forestry licensees.

Since the end of last fiscal, the Chinook Business Area has entered into a co-operative management agreement with Misty Isles Economic Development Society (MIEDS).

As well the Seaward- Tlasta Business Area has entered into cooperative management agreements with the Nanwakolas Forestry Corporation as well as with the Gwawaenuk First Nation.

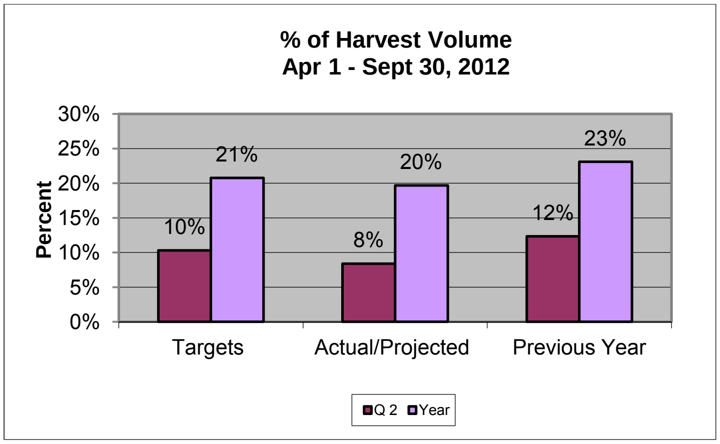
BCTS has also partnered with the BC First Nations Forestry Council in support of the “First Nations Forestry Technician Training Program”. This program helps First Nations students develop their skills and knowledge of the forest industry with the goal of building capacity for First Nations to be full partners in the sector. Staff from local BC Timber Sales offices will mentor the students throughout the program and we will provide summer work experience opportunities. Five students are now in their first term of forestry specific educational training and will begin applied work experience with BCTS next summer.

BC Timber Sales also continues to explore opportunities to meet First Nations’, other communities’ and BC Timber Sales interests on the forest land through the continuation of existing partnerships and piloting of additional opportunities.

PROVIDING A CREDIBLE REFERENCE POINT

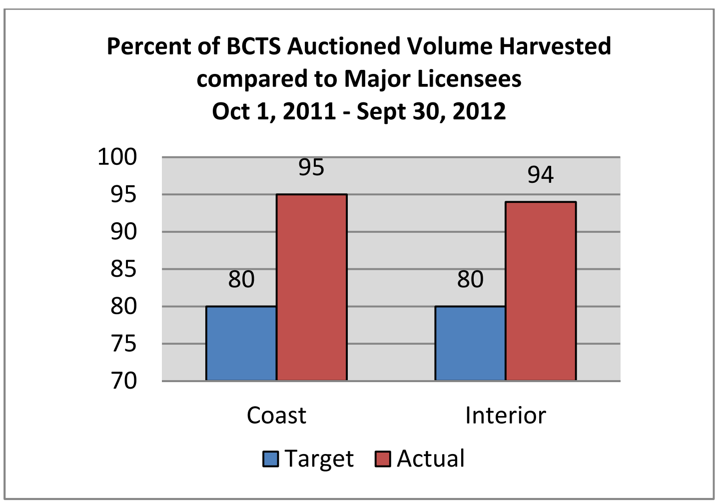
for costs and pricing of timber harvested from public land in B.C.

BCTS auction volume as a percent of projected provincial harvest volume



The volume of timber advertised by BCTS must be at a level sufficient to support the Market-based Pricing system (MPS). By the end of the second quarter, BCTS had advertised 8% of the projected annual provincial harvest volume. This was two percentage points less than target and four points less than last year's second quarter performance. BCTS is projecting to have advertised 20% of the provincial harvest volume by year end.

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



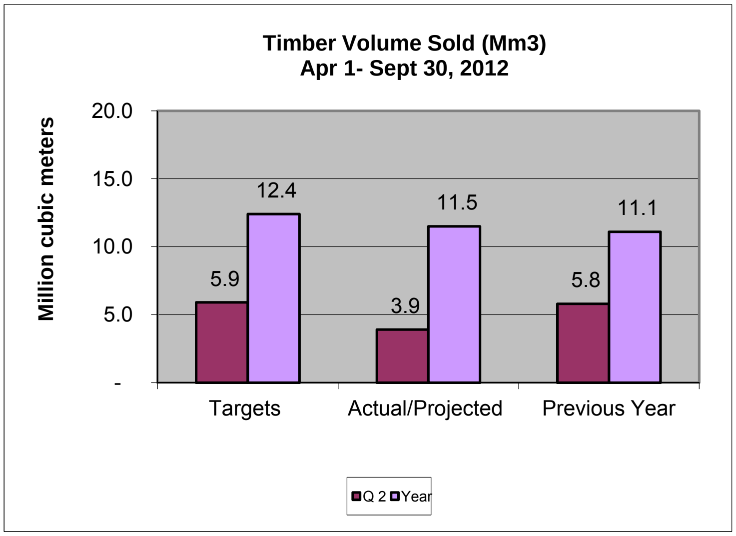
For BCTS to ensure it provides credible data to establish market-based stumpage rate it has to develop and auction sufficient timber sales to provide statistically credible data to the Market Pricing System. For the year ended Sept 30, 2012 BCTS has exceeded its targets for both the interior and the 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

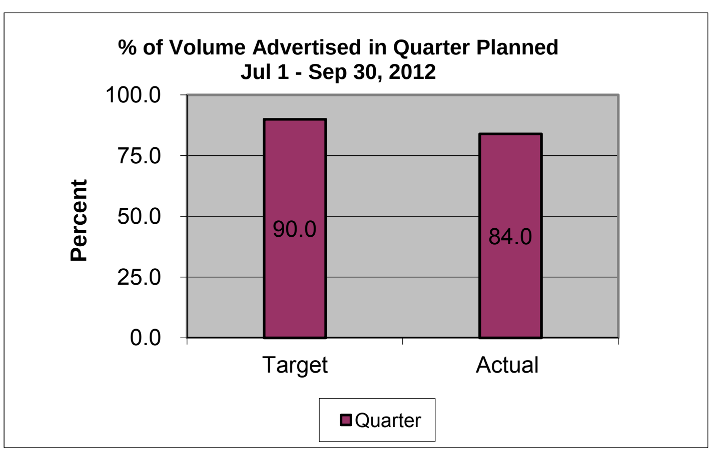
to the market, through open and competitive auctions.

Timber Volume Sold



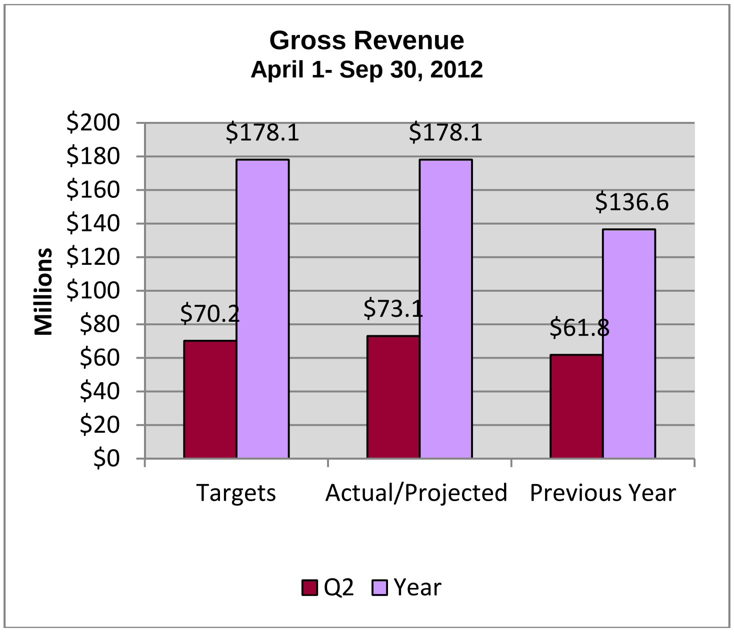
A key indicator that BCTS is providing a reliable supply of timber to the market is the total timber volume it sells. BCTS sold 3.9 million cubic metres of timber through competitive auctions in the first and second quarters. This is 34% less than target and 33% less than the prior year's performance. Almost one million cubic metres of timber offered to date has received no bids. This higher than projected no bid volume and operational issues delaying the advertising of a number Timber Sale Licenses are primary factors in the current and projected performance. Sales are expected to pick up in the third and fourth quarters based in increasing customer demand in many areas.

The volume of timber supplied to the market is reliable



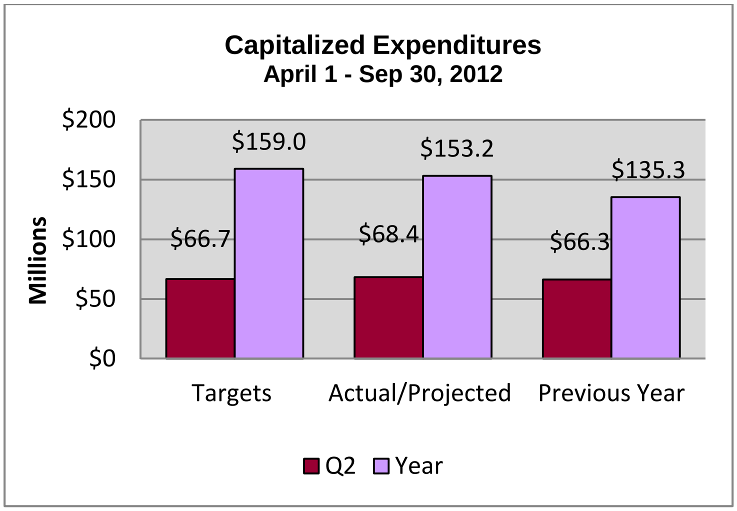
The percent of timber volume advertised in the quarter planned is another indicator of reliability of supply. This measure is also an indicator of the reliability of BCTS' Sales Schedules. In the second quarter, seven of 12 business areas under achieved as a result of delays due to adjusting for market demand and various operational issues. In total, BCTS advertised 84% of timber volume planned. The delayed volume will be advertised in future quarters.

Gross Revenue



BCTS gross revenue for the first six months was $73.1 million – 4% higher than target. Actual billed rates were higher than projected and timber volume harvested remains on target, resulting in the higher gross revenue. BCTS is projecting to achieve its target revenue for the year. Compared to the second quarter of the previous year, gross revenue earned has increased $11.3 million or 15%.

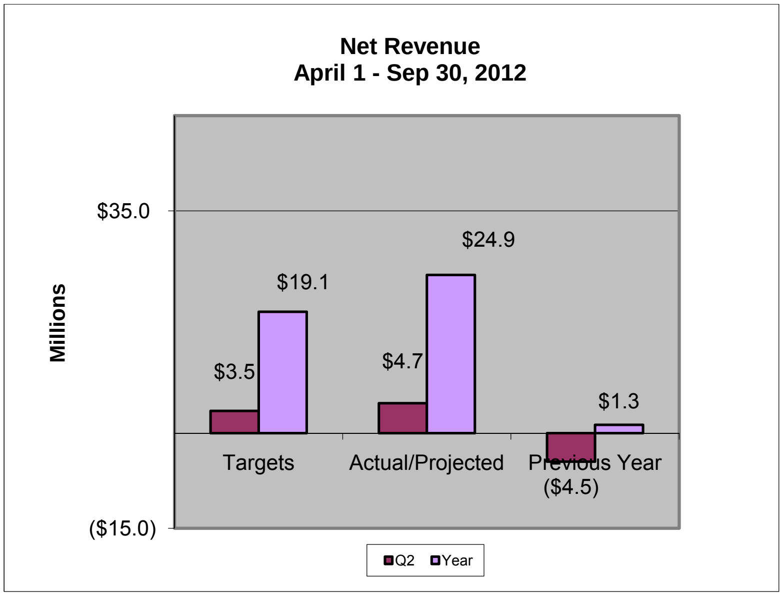
Less: Capitalized Expenditures



Capitalized expenditures for the first six months were $2.1 million higher than the previous year and $1.7 million higher than target. Higher cost of goods sold, plus higher amortization expenses all contributed to the increased capitalized expenditures.

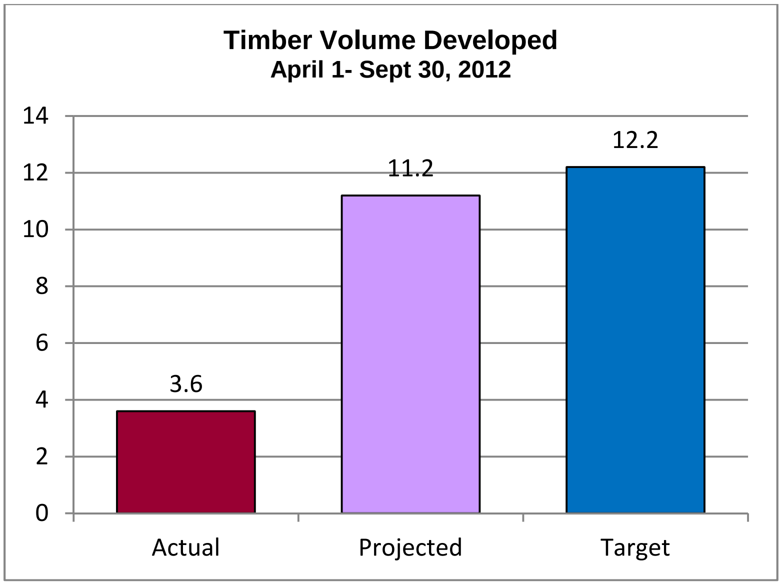
BCTS is projecting year end expenditures of $153.2 or 4% under target due to continued cost savings strategies, the impacts of the government hiring restrictions, and lower than expected harvest volumes.

Equals: Net Revenue



Net revenue for the first six months was $1.2M higher than projected and $9.2M higher than last year. Higher than expected billed rates being paid, combined with lower than projected harvest volumes and cost savings are expected to result in net revenue of $24.9M by year end.

Developed Volume Production



In order to ensure a future reliable supply of timber to the market, maximise future net revenues and meet future demand for timber sales BCTS must ensure sufficient timber is developed each year.

To date BCTC has developed 3.6 million cubic metres towards a target of 12.2 Mm3 for the year. The government hiring restrictions are beginning to adversely impact production capability. BCTS is projecting to develop 11.2Mm3 by year-end. The underachievement of 1Mm3 will not be available for auction at the start of fiscal 2013/14.

APPENDIX 1 - OUTPUTS

Key Year to Date Results by Coast and Interior Areas April 1 to Sept 30, 2012

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

	Target	Total	Coast	Northern Interior	Southern Interior
Volume Offered (Mm3)	6.7	5.5	1.2	2.1	2.2
Less: No Bid Sales/No Sale	(0.8)	(1.0)	(0.1)	(0.6)	(0.3)
Less: Timing Variance (note 1)		(0.9)	(0.1)	(0.4)	(0.4)
Plus: YE Timing Variance		0.3	0.1	0.1	0.1
Volume Sold (Mm3)	5.9	3.9	1.1	1.2	1.6
Volume Harvested (Mm3)	3.7	4.1	1.3	1.1	1.7
Roads (km constructed)	58.9	19.0	11.5	1.4	6.1
Bridges (number installed)	39	27	18	3	6
Deactivation (km deactivated)	91.3	61.3	2.5	44.9	13.9
Site Prep (Ha)	2,950	1,991	36	433	1,522
Planting (Millions of seedlings planted)	38.5	36.0	1.9	16.9	17.2

Lump Sum Timber Sale Licences	**Number (TSL)**	**Volume (Mm3)**
• Advertised	76	2.54
• Less: No Bid/No Sale	(17)	(0.5)
• Total Sold	59	2.04

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

April 1, 2012 – Sept 30, 2012

	2012/13 First Quarter (Millions)		2012/13 Second Quarter (Millions)	
GROSS REVENUE		**$22.8**		**$50.3**
Capitalized Expenses:				
Cost of Timber Inventory Harvested				
Administration / Salaries	$ 2.8		$ 8.6	
Planning & Sales	$ 2.1		$ 6.6	
Access - Amortization	$ 7.8		$ 7.4	
Sub-Total Cost of Timber Inventory Harvested		**($12.7)**		**($22.6)**
Other Costs				
Silviculture Liability Expense	$ 4.9		$12.6	
Road & Bridge Maintenance	$ 1.0		$ 3.0	
Harvest Conformance	$ 0.0		$ 0.2	
Administrative Overhead	$ 6.5		$ 5.1	
Land Base Investment/ Forest For Tomorrow (FFT)	$ 1.0		$ 0.5	
Land Base Investment/ FFT Recoveries	($ 1.0)		($ 0.7)	
Sub-Total Other Costs		**($12.4)**		**($20.7)**
NET REVENUE/(LOSS)		**($ 2.3)**		**$ 7.0**

APPENDIX 2 – SELECTED BALANCE SHEET ITEMS

Selected Balance Sheet Items	June 30 2012/13 (Millions)		Sept 30 2012/13 (Millions)	
Silviculture Liability		**$ 84.4**		**$ 85.1**
Inventory Value of Developed Timber				
Timber Inventory – Opening Balance	$124.5		$127.2	
Timber Developed	$ 7.6		$ 10.8	
Timber Available for Sale	$132.1		$138.0	
Cost of Timber Inventory Harvested	($ 4.9)		($ 15.2)	
Timber Inventory – Closing Balance		**$127.2**		**$122.8**
Roads				
Book Value	$694.6		$699.2	
Accumulated Amortization	($433.0)		($440.4)	
Net Book Value		**$261.6**		**$258.8**
Deactivation Liability		**$ 4.2**		**$ 4.5**
Seed Inventory		**$ 22.0**		**$ 22.1**

(Unaudited)

APPENDIX 3 - Key MPS Variables Distribution Comparisons—Interior

Table 1: Interior BCTS Representativeness Analysis* - Grades
October 1, 2011 to September 30, 2012

		Tenure			
Species Group	Grade	BCTS Auctions**		Major Licences***	
Coniferous	1	567,468.7	8.7%	4,498,234.8	11.9%
	2	1,076,906.6	16.5%	9,384,839.7	24.9%
	3		0.0%		0.0%
	4	462,460.6	7.1%	3,988,919.0	10.6%
	5		0.0%		0.0%
	6	21,527.1	0.3%	127,815.3	0.3%
	Dead Potential - 8	2,190,417.1	33.6%	11,732,187.2	31.1%
	Live - 7	2,093,954.7	32.1%	7,174,190.7	19.0%
	blank		0.0%		0.0%
Coniferous Total		6,412,734.8	98.3%	36,906,186.7	97.9%
Deciduous	1	170.2	0.0%	30,983.8	0.1%
	2	8,444.8	0.1%	342,437.1	0.9%
	3		0.0%	-	0.0%
	4	13,305.5	0.2%	377,751.6	1.0%
	5	-	0.0%	-	0.0%
	6	518.9	0.0%	9,918.3	0.0%
	Dead Potential - 8	5,308.2	0.1%	763.1	0.0%
	Live - 7	85,304.0	1.3%	14,797.6	0.0%
	blank	-	0.0%	-	0.0%
Deciduous Total		113,051.6	1.7%	776,651.5	2.1%
Interior Total		6,525,786.4	100.0%	37,682,838.2	100.0%

*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
October 1, 2011 to September 30, 2012

SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***	
Coniferous	Balsam	376,471.9	5.8%	2,878,826.3	7.6%
	Cedar	156,512.1	2.4%	574,726.9	1.5%
	Cypress	2.1	0.0%	34.8	0.0%
	Fir	337,658.7	5.2%	2,198,987.8	5.8%
	Hemlock	163,927.8	2.5%	750,048.8	2.0%
	Larch	80,327.2	1.2%	339,128.7	0.9%
	Lodge-Pine	4,288,570.6	65.7%	21,472,537.6	57.0%
	Spruce	981,966.6	15.0%	8,607,193.1	22.8%
	White Bark Pine	310.2	0.0%	5,023.2	0.0%
	White Pine	12,623.1	0.2%	40,774.8	0.1%
	Yellow Pine	14,364.5	0.2%	38,904.8	0.1%
	Yew		0.0%		0.0%
Coniferous Total		6,412,734.8	98.3%	36,906,186.7	97.9%
Deciduous	Alder	0.0	0.0%	2.2	0.0%
	Aspen	93,104.7	1.4%	691,112.2	1.8%
	Birch	12,231.1	0.2%	1,465.1	0.0%
	Cottonwood	7,715.8	0.1%	84,072.1	0.2%
	Maple		0.0%	-	0.0%
Deciduous Total		113,051.6	1.7%	776,651.5	2.1%
Interior Total		6,525,786.4	100.0%	37,682,838.2	100.0%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Interior grades only.

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

		Tenure			
SPECIES_GROUP	GRADE	BCTS Auctions**		Major ***	
Coniferous	B	1,418.2	0.1%	12,296.6	0.1%
	C	23,162.0	1.4%	134,516.9	1.2%
	D	16,314.7	1.0%	182,258.0	1.6%
	E	156.4	0.0%	4,057.1	0.0%
	F	18,573.0	1.1%	209,419.9	1.8%
	G	345.2	0.0%	7,412.7	0.1%
	H	347,974.3	20.3%	2,492,370.0	21.8%
	I	189,653.9	11.1%	1,330,145.4	11.6%
	J	722,438.4	42.1%	4,769,545.4	41.7%
	K	6,733.9	0.4%	131,016.0	1.1%
	L	13,928.3	0.8%	198,945.3	1.7%
	M	14,850.1	0.9%	112,345.1	1.0%
	U	232,990.5	13.6%	1,190,567.6	10.4%
	W	1.7	0.0%		0.0%
	X	70,525.5	4.1%	338,565.8	3.0%
	Y	49,395.1	2.9%	269,189.9	2.4%
Coniferous Total		1,708,461.4	99.6%	11,382,651.7	99.5%
Deciduous	W	5,628.1	0.3%	61,069.0	0.5%
	Y	658.4	0.0%	1,136.3	0.0%
Deciduous Total		6,286.5	0.4%	62,205.3	0.5%
Coast Total		1,714,747.83	100.00%	11,444,856.96	100.00%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Coast grades only.

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

		Tenure			
SPECIES_GROUP	SPECIES	BCTS Auctions**		Major Licences***	
Coniferous	Balsam	195,338.9	11.4%	1,339,653.9	11.7%
	Cedar	348,732.0	20.3%	2,401,924.7	21.0%
	Cypress	47,456.4	2.8%	333,412.2	2.9%
	Fir	544,007.7	31.7%	2,360,870.0	20.6%
	Hemlock	547,461.9	31.9%	4,768,687.1	41.7%
	Lodge-Pine	7,031.9	0.4%	4,350.7	0.0%
	Spruce	17,262.2	1.0%	167,761.4	1.5%
	White Pine	1,167.5	0.1%	5,990.0	0.1%
	Yellow Pine	0.5	0.0%	1.8	0.0%
	Yew	2.2	0.0%		0.0%
Coniferous Total		1,708,461.4	99.6%	11,382,651.7	99.5%
Deciduous	Alder	4,145.6	0.2%	45,956.3	0.4%
	Arbutus		0.0%		0.0%
	Birch	388.0	0.0%	379.6	0.0%
	Cottonwood	101.9	0.0%	13,473.3	0.1%
	Maple	1,651.0	0.1%	2,396.0	0.0%
Deciduous Total		6,286.5	0.4%	62,205.3	0.5%
Coast Total		1,714,747.8	100.00%	11,444,857.0	100.00%

*all logs, species and grades billed to crown land. Excludes special forest products, Christmas trees, waste, reject, private and federal land. Coast grades only.

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For more information on BC Timber Sales

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