



## SERVICE PLAN ANNUAL REPORT 2013 / 2014

FORESTRY INNOVATION INVESTMENT JUNE 2014



Forestry Innovation Investment



Front cover image: Salmon Arm Savings and Credit Union, Uptown Branch, Salmon Arm, B.C.  
Architect: RATIO Architecture, Interior Design + Planning Inc.  
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Inside cover image: Second growth pine and mature mountain pine beetle attacked forest, west  
of Quesnel, B.C.  
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# Message from the Board Chair to the Minister Responsible

June 30, 2014

The Honorable Teresa Wat  
Minister of International Trade  
and Minister Responsible for the Asia Pacific Strategy and Multiculturalism  
Province of British Columbia

Dear Minister:

I am pleased to submit Forestry Innovation Investment's Service Plan Annual Report 2013/14.

For the B.C. forest industry, 2013 was much better than any year since 2007. Improved sales reflected a general recovery in economies around the world, and the collaborative efforts of the industry and government agencies including FII. Last year saw continuing improvement in the U.S. housing construction sector, where new starts had bottomed out at about 554,000 in 2009 but rebounded to about 926,000 last year. That created significantly greater demand for B.C. wood products. At the same time, China's economy continued to expand at nearly 8 per cent per annum. The overall results were good for the B.C. forest industry, with total shipments garnering \$12.3 billion in revenue, up 12 per cent from 2012.

Because some 80 per cent of timber harvested in B.C. is processed first in a sawmill, FII has always focused heavily on stimulating lumber sales, with several performance measures based on lumber sales in Asia and lumber consumption in the North American non-residential construction sector. In 2013 B.C.'s overall lumber exports rose by 7 per cent in volume and 26 per cent in value compared to 2012. Sales exceeded FII's volume targets for China, South Korea and, substantially, for Japan. In 2013, the B.C. lumber industry directed 31 per cent of its exports to China, a level that now seems quite stable, driving lumber prices higher world-wide.

## Operations

From an operations perspective, FII's organization and array of programs in 2013 reflected significant changes in 2012 when FII China was downsized and FII India was created. The staff in China continued to promote the use of B.C. lumber in wood frame construction, and those in India focused on doing basic market research to inform the long-term market development strategy. FII India's new office in Mumbai has been designed as a showcase of B.C. wood products, and now hosts not only FII India but also the Province's trade-and-investment representatives in Mumbai.

Over the past year, FII staff in Vancouver ramped up the Wood First Program to make B.C. a centre of excellence in the manufacture and use of innovative wood products, including support for the concept of building high-rise structures with wood. The Market Outreach Program increased the scale and reach of efforts to make architects, engineers and others more aware of the environmental merits of wood products from B.C., especially in non-residential construction in the U.S. Most activities under the banner of Market Initiatives continue to be crafted and delivered by forest industry trade associations, with FII and the Government of Canada providing about 72 per cent of the trade associations' funding in 2013/14.

## Financial Summary

In 2013/14, FII received a total of \$18.7 million in cash funding from the Province, the Government of Canada (in support of the new subsidiary in India), and other sources. This was virtually the same as for the previous year. Through competitive processes, \$10.6 million was offered to share the cost of other organizations' market development and Wood First activities, of which \$8.3 million was taken up. The short-fall in uptake was entirely in the market development arena, and primarily because trade associations decided not to assume a greater role in off-shore markets. Against the \$8.3 million that FII committed to funding recipients, they ultimately spent \$7.8 million. FII ended the year with a surplus of \$0.4 million now vested in retained earnings, the use of which will be contingent on Board direction in concert with the Ministry of Finance.

## Risk and capacity

International marketing is influenced by factors such as economic growth in target markets, exchange rates, and other factors outside the control of individual organizations, like FII. For example, demand for B.C. forest products is driven by the level of economic activity in other countries, especially residential construction and renovation in the United States, and China's economic growth rate. FII's objective is to positively influence demand for B.C. products within whatever circumstances may prevail at any given time.

For program delivery, FII relies on the willingness and ability of trade associations to propose, deliver, and share the cost of a host of market development activities. They in turn rely on funding not only from FII and their member companies, but also from the Government of Canada. The latter is committed to supporting the forest industry's marketing programs through 2016/17.

The 2013/14 Forestry Innovation Investment Ltd. Service Plan Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the B.C. Reporting Principles. The Board is accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information reflects the actual performance of FII for the twelve months ended March 31, 2014 in relation to the Service Plan dated June 2013. The measures presented are consistent with FII's mandate, goals and objectives for 2013/14, and focus on aspects critical to the organization's performance.

The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant assumptions, decisions, events and identified risks, as of March 31, 2014 have been considered in preparing this report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the June 2013 Service Plan was released and any significant limitations in the reliability of the data are identified in the report.



Tim Sheldan  
Board Chair

## Organizational Overview

British Columbia's forest economy, whether measured by volume, economic value, or innovation, is a world leader. Maintaining this leadership, and supporting the 55,000 British Columbians that work in the sector, is a priority of the Province of British Columbia.

Towards these ends, the Government actively supports a variety of research and product and market programs to keep the B.C. forest sector competitive both domestically and internationally. These programs are delivered or managed primarily by Forestry Innovation Investment (FII), the Province's market development agency for forest products.

FII works with the forest industry, the federal government, research institutions and other stakeholders to deliver forward looking, innovative programs that support current industry market development initiatives and that identify and develop new and emerging opportunities.

FII's activities link directly to forest sector activities, with the resulting impact on job creation and investment in all regions of the province.

### Enabling legislation

Forestry Innovation Investment was incorporated in 2003 under the Business Corporations Act as the Government of British Columbia's market development agency for forest products.

### Legislated mandate

FII's mandate, as specified in its Government's Letter of Expectations, is to work with the forest industry to develop and diversify markets for B.C. forest products while promoting B.C. as a world-class supplier of environmentally friendly forest products. FII works collaboratively with industry trade associations, other levels of government including the Government of Canada and other provinces, and with research institutions to enhance the value of B.C.'s forest resources and strengthen employment throughout the province. Through these efforts, FII helps to strengthen the forest economy and create jobs in B.C.

## Vision, Mission and Values

### Vision

The British Columbia forest sector is innovative, diverse and prosperous, based on sustainable forest practices and a commitment to continuous product and market development.

### Mission

To develop and diversify domestic and international markets for B.C. forest products by working collaboratively with industry, government and institutional partners, and by making well balanced investments that respond to government and industry priorities while maximizing value to the Province.

### Values

**Innovation** - FII anticipates changing market, economic and geo-political forces that impact the forest economy, and invests in new programs, research and product development that offer competitive advantages to the forest sector.

**Credibility and integrity** - FII activities and funded projects are based on government and industry priorities and strategies developed in partnership with stakeholders and are based on extensive market research. FII services are transparent, timely and openly communicated.

**Collaboration** - FII works in partnership with key stakeholders in industry, the research sector and government to develop initiatives and ensure programs are delivered effectively.

**Engagement** - FII is actively involved in the market and product development programs it funds and delivers. FII not only responds to government and industry priorities, but also takes the initiative to identify new market opportunities and counsel industry and government on emerging issues.

**Evidence based decision-making** - FII is oriented towards growing markets, but recognizes that there are risks in pursuing opportunities. As much as possible, investment decisions are firmly rooted in current, relevant, and comprehensive market information that provides a sufficiently compelling business case for each market initiative.

**Accountability** - FII strives for transparent decision-making and investment processes. FII staff have a duty to ensure the appropriate use of the public funds entrusted to them. Activities are expected to be founded on clear objectives, generate a positive return and have well-developed performance measures.

	FII incorporated
2003	Market Outreach Network established to promote B.C.'s sustainable forest practices while Market Development Program identifies and develops new markets for B.C. forest products
2004	Major focus on hiring permanent staff, establishing subsidiary company in China, and building office in Shanghai
2005	Demonstration wood-frame housing built in Sumatra (Indonesia) following December 2004 earthquake and tsunami to test logistics and social parameters of disaster reconstruction
2006	Completion of Dream Home Canada office building in Shanghai, China, reflects priority being placed on China market development
2006	Mountain Pine Beetle Program introduced to support industry response to outbreak, including market development, product research, and manufacturing innovation
2007	Business Innovation Program introduced to support marketing and product innovation in value-added sector
2008	\$8 million Canada-B.C. Wenchuan Earthquake Reconstruction Project offers humanitarian support to China and raises profile of wood-frame construction
2009	FII responds to growing consumer interest by promoting "green" benefits of B.C. wood products
2010	FII uses Olympic venues to showcase wood use and launch marketing program targeting non-residential sector across North America
2011	FII assumes management of Wood First Initiative to create a "culture of wood" in B.C.
2012	FII scales back its subsidiary in China, and establishes a presence in India to initiate a market development program
2013	First two tsunami reconstruction projects in Japan (a library and a public market in Natori City) are officially opened
2014	Construction of the Wood Innovation and Design Centre (Prince George, B. C.), the largest contemporary wood building in North America

## Overview of Core Business Areas

FII programs are delivered through an Operations division that is organized to reflect the corporation's mandate for market development. A Corporate Services division delivers consolidated services and expertise in support of government and internal clients.

OPERATIONS	
<b>MARKET INITIATIVES</b>	<ul style="list-style-type: none"> <li>• Research opportunities in new and emerging markets, and initiate early market exploration activities</li> <li>• Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products</li> <li>• Support industry efforts to mitigate market access and plant health issues</li> <li>• On behalf of the forest sector, manage outreach and relationship building with Chinese authorities and central government agencies</li> <li>• Undertake early-stage market development in India</li> </ul>
<b>WOOD FIRST</b>	<ul style="list-style-type: none"> <li>• Champion the Province's Wood First priorities and encourage expanded wood use in B.C.</li> <li>• Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation</li> <li>• Encourage product innovation and the introduction of new wood building systems</li> <li>• Encourage a robust valued added sector in B.C., through enhanced capacity and competitiveness</li> </ul>
<b>MARKET OUTREACH</b>	<ul style="list-style-type: none"> <li>• Promote the benefits of wood as a green building material</li> <li>• Develop factual and science based materials to position wood's environmental benefits and climate change mitigation potential</li> <li>• Promote B.C. as a world leading supplier of forest products</li> <li>• Ensure markets are aware of B.C.'s sustainable forest practices and high environmental standards</li> </ul>
CORPORATE SERVICES	
<b>FINANCE &amp; ADMINISTRATION</b>	<ul style="list-style-type: none"> <li>• Ensure financial reporting to government standards</li> <li>• Provide Human Resources, IT and office services to meet organizational needs</li> <li>• Oversee budget and planning controls</li> </ul>
<b>CORPORATE RELATIONS</b>	<ul style="list-style-type: none"> <li>• Compile and share export data and analysis on market trends</li> <li>• Support Government and industry trade initiatives</li> <li>• Provide corporate communication and analytical services to meet internal and external needs</li> </ul>

## Overall benefit to the public

FII directly supports The BC Jobs Plan strategy to grow the provincial economy for a strong, secure future by promoting wood use across the province and around the world on behalf of the forest sector and the tens of thousands of British Columbians who work in forestry.

Specific benefits provided by FII include:

- working to maintain existing domestic and foreign markets for B.C. forest products in collaboration with the forest industry;
- opening up new markets for B.C. forest products and creating the potential for new jobs to service these markets;
- investing in early stage market development, such as in India, where there is the potential for significant long-term growth;
- building awareness of B.C.'s forest sector internationally, particularly in the Asia-Pacific region;
- supporting the growth of a sustainable and green economy, and the value-added wood products sector, by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C. in building construction.
- positioning B.C. through Wood First as a world leader in the production and use of innovative wood products and wood-based building systems.

## Principal Partners, Clients and Stakeholders

A major strength of the B.C. forest sector is its ability to work together for the best interests of British Columbia and Canada. Through this collective effort, stakeholders are able to leverage their strengths to develop and diversify markets at home and abroad, and to maintain B.C.'s position as a global leader in wood product innovation and export. FII is proud to work with the following principal partners, stakeholders and clients.

STAKEHOLDER	RELATIONSHIP
<b>GOVERNMENT</b>	
Government of British Columbia	Sole shareholder, provides FII's core funding
Ministry of International Trade	Responsible for FII and for international trade and investment promotion
Ministry of Jobs, Tourism and Skills Training	Responsible for The BC Jobs Plan
Ministry of Forests, Lands and Natural Resource Operations	Responsible for forest practice regulations and timber sales, and forest and other natural resource management
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing through the Expanding Market Opportunities Program
Department of Foreign Affairs, Trade and Development, Government of Canada	Federal agency supporting in-market trade and investment promotion
<b>NON-GOVERNMENT</b>	
<p><b>Forest industry associations and organizations:</b></p> <ul style="list-style-type: none"> <li>• APA – The Engineered Wood Association</li> <li>• B.C. Shake &amp; Shingle Association</li> <li>• B.C. Wood Specialties Group</li> <li>• Binational Softwood Lumber Council</li> <li>• Canada Wood Group</li> <li>• Canadian Wood Council</li> <li>• Canadian Wood Council – WoodWORKS! BC</li> <li>• Cedar Shake and Shingle Bureau</li> <li>• Coast Forest Products Association</li> <li>• Council of Forest Industries</li> <li>• Forest Products Association of Canada</li> <li>• Independent Wood Processors Association of B.C.</li> <li>• Softwood Lumber Board</li> <li>• Western Red Cedar Lumber Association</li> <li>• Wood Pellet Association of Canada</li> <li>• Wood Products Council</li> </ul>	Organizations that initiate and deliver domestic and international market development programs, typically funded jointly by FII, Natural Resources Canada, and/or other partner organizations. This list also includes agencies not funded by FII, but with which FII interacts to support market and/or product development initiatives.
<p><b>Post-secondary and research institutions:</b></p> <ul style="list-style-type: none"> <li>• Athena Sustainable Materials Institute</li> <li>• Consortium for Research on Renewable Industrial Materials</li> <li>• Dovetail Partners</li> <li>• FPIInnovations</li> <li>• NEWBuildS (university research consortium)</li> <li>• University of British Columbia</li> <li>• University of Northern British Columbia</li> </ul>	Partners and/or funding recipients that initiate and deliver technical research, and assist B.C. value-added firms to improve product design and manufacturing.

## How services are delivered

To provide the best value to taxpayers and stakeholders in the B.C. forest sector, FII uses a joint delivery approach for program delivery. This approach takes advantage of industry expertise and marketing networks as well as shares the costs of programs with various partners.

About half of FII's budget funds activities delivered by industry trade associations and other groups. These activities are also funded, in part, by Natural Resources Canada through its Expanding Market Opportunities Program and the delivery organizations themselves.

Third-party programs are selected through an annual competitive call for proposals that is based on investment strategies developed by FII and updated annually to reflect current market conditions and industry and government priorities. Each funded activity requires the delivery organization to agree to clear performance criteria, reporting requirements, budget controls, regular monitoring by FII staff, and occasional audits by independent auditors selected by FII.

FII also directly delivers a number of marketing and communication programs that support government priorities and provide broad-based benefits to the forest sector, but fall outside the mandates of trade associations. These include:

- leading the Province's Wood First initiative;
- conducting market research to unearth potential opportunities and create new demand in emerging markets and segments;
- producing marketing resources for general use by industry, such as publications on wood as a green building material, and the [www.naturallywood.com](http://www.naturallywood.com) and [www.woodfirstbc.ca](http://www.woodfirstbc.ca) web sites;
- using market outreach communication to explain B.C.'s forest practices and environmental record to international markets;
- delivering market communications based on science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context;
- collaborating with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts;
- providing market research and outreach to government agencies in China, where FII represents the interests of the forest sector in interactions with Chinese authorities and state controlled enterprises; and
- supporting market development, communications and outreach in India via a subsidiary office in Mumbai.

## Location of operations

The FII corporate office is located at:  
#1200 - 1130 West Pender Street, Vancouver, British Columbia.

The company's China subsidiary, FII Consulting (Shanghai) Co, Ltd., is located at:  
425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, P.R. China 201206

FII Consulting (Shanghai) also has staff in Beijing located at:  
Room 1507, Kuntai International Mansion, No.12 B Chaowai Street, Beijing 100020.

The company's India subsidiary, Forestry Innovation Consulting India Private Ltd., is located at:  
Unit No. 1202, A-Wing, Naman Midtown, near Indiabulls Financial Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400 013, India

More information on FII is available at [www.bcfii.ca](http://www.bcfii.ca). General information on B.C.'s forest products and sustainably managed forests is available at [www.naturallywood.com](http://www.naturallywood.com). Information on the Wood First Initiative is available at [www.woodfirstbc.ca](http://www.woodfirstbc.ca).

# Corporate Governance

## Board of Directors

FII is responsible to the Minister of International Trade through a four-member Board of Directors. The Government appoints the Board to set operational policy for the organization and, in cooperation with senior management, to set strategic direction. The Board also monitors FII's performance based on the Province's planning and reporting principles. The Board appoints the Chief Executive Officer and delegates responsibility to the CEO for the day-to-day leadership and management of the organization.

The members of the Board of Directors are:

- Tim Sheldon, Deputy Minister, Ministry of Forests, Lands and Natural Resource Operations (Chair);
- Shannon Baskerville, Deputy Minister, Ministry of International Trade (Vice-Chair);
- Sandra Carroll, Deputy Minister, Ministry of Advanced Education;
- Dave Peterson, Assistant Deputy Minister, Tenures, Competitiveness and Innovation Division, Chief Forester, Ministry of Forests, Lands and Natural Resource Operations.

The FII Board has an Audit Committee, which is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions of which two are currently filled by Sandra Carroll, Committee Chair, and John Desjardins, Partner, KPMG.

## Governance Principles and Practices

The FII Board of Directors operates according to six guiding principles related to:

- stewardship, leadership and effective functioning of the Board;
- clarity of roles and responsibilities;
- openness, trust and transparency;
- service and corporate citizenship;
- accountability and performance; and
- value, innovation and continuous improvement.

Details about how the guiding principles are applied are posted on FII's website at [www.bcfii.ca](http://www.bcfii.ca).

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations.

As recommended in the guidelines, FII's disclosure, including its Status of Concurrence with Best Practices Guidelines, is available on the company's website at [www.bcfii.ca](http://www.bcfii.ca). As detailed in the Status of Concurrence report, FII is substantially in accordance with governance best practices set out by the Province's Crown Agency Resources Office.

## FII Executive Management

- Ken Baker, CEO
- Douglas Greig, Vice President, Finance and Administration
- Michael Loseth, Vice President, Operations

## Industry Advisory Committees

Several committees of senior forest industry representatives provide continuing advice to FII:

Market Acceptance Advisory Committee: Offers strategic direction on FII's Market Outreach programming

Wood First Advisory Committee: Offers strategic direction on the Wood First program and related priorities for investment

Proposal Evaluation Panels: Evaluate funding proposals received through FII's annual call for proposals processes

## Subsidiary Companies

### **FII Consulting (Shanghai) Co. Ltd.** (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Supporting the B.C. forest industry by providing market research, technical wood frame building expertise and related liaison with Chinese government authorities and State-owned real estate development companies.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in China, primarily by creating new demand for lumber in structural applications and related building products.

Governance: Sole Executive Director: Ken Baker, CEO, FII

Senior Management: Lisa Dou, General Manager

Financial information: See the Financial Report

### **FII Consulting India Private Limited** (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.)

Primary business: Supporting the development of the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, providing intermediation with India regulatory authorities, and providing direct support for B.C. companies entering the India market.

Objective: Work with the B.C. forest industry and the federal government to grow the market for B.C. wood products in India by creating new demand for softwood products in the furniture, interior finishing and other segments.

Governance: Three-member Board of Directors:

- Michael Loseth (Chair), Vice President, Operations, FII
- Ken Baker, CEO, FII
- Douglas Greig, Vice President, Finance and Administration, FII

Senior Management: Vacant position, Country Director

Financial information: See the Financial Report

### **0939031B.C. Ltd.** (wholly owned by Forestry Innovation Investment Ltd.)

Primary business: Non-operational company functioning as the second shareholder in FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Objective: To fulfill India laws regarding foreign ownership of India companies.

Governance: Sole Director: Ken Baker, CEO, FII

Senior Management: None

Financial information: See the Financial Report

# Report on Performance

## GOAL 1

### WOOD IS VIEWED AS AN ENVIRONMENTALLY-FRIENDLY, PREFERRED BUILDING MATERIAL AND B.C. IS RECOGNIZED AS A RELIABLE SUPPLIER OF QUALITY PRODUCTS FROM SUSTAINABLY-MANAGED FORESTS

#### Strategies

- Provide timely and factual information regarding B.C. forest products and forest practices;
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and a climate change context;
- Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts; and
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

#### Performance Measures

- Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment

## GOAL 2

### SALES OF B.C.'S CONVENTIONAL AND EMERGING FOREST PRODUCTS ARE GREATLY EXPANDED IN MARKETS OFFERING HIGH POTENTIAL RETURNS

#### Strategies

- Funding trade association market development programs based on priorities outlined in FII's annual investment strategies;
- Engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets;
- Initiating early stage market development efforts in emerging economies;
- Completing disaster reconstruction projects under the Canada-Tohoku Reconstruction Project in Japan;
- Partnering with the federal government and working with B.C. and bi-national trade associations to expand the use of wood in the non-residential and multi-family construction sectors in North America; and
- Engaging industry and institutional partners to explore market development potential for commercial or near-commercial bio-products.

#### Performance Measures

- Softwood lumber exports to priority Asia Pacific markets
- Incremental sales generated in targeted U.S. non-residential construction markets

## GOAL 3

### B.C. IS A WORLD-CLASS CENTRE OF EXCELLENCE IN DEVELOPING AND USING INNOVATIVE WOOD PRODUCTS AND BUILDING SYSTEMS

#### Strategies

- Work with industry and government stakeholders to establish a “culture of living and building with wood” in B.C.
- Maximize the appropriate use of wood in B.C.’s public and private construction by:
  - leveraging Provincial capital projects to showcase wood construction;
  - encouraging local and regional governments to adopt “Wood First” policies;
  - providing technical support to local governments and industry on wood building systems;
  - supporting technical research, and product and systems development to ensure B.C. has the capacity to produce high-quality wood-based products and building systems.
- Accelerate the adoption of existing and emerging wood-based products and building systems in B.C.

#### Performance Measures

- Incremental sales generated in the B.C. non-residential construction market

## GOAL 4

### FII SERVES ITS STAKEHOLDERS IN A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE MANNER

#### Strategies

- Ensure FII is efficient, transparent and results focused by:
  - Keeping corporate support costs at or below 7 per cent of total budget;
  - Implementing a rigorous performance management system;
  - Monitoring and auditing funded projects according to explicit risk assessments.
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector’s economic and social benefits to British Columbia.
- Maximize the financial contributions of key partners to core programming.
- Minimize FII’s carbon footprint and promote environmentally responsible business activities.

#### Performance Measures

- Timeliness of annual funding cycle for trade associations, research institutes, and universities
- Leveraged dollars as a percentage of total annual funding program

## Performance Management Reporting

The performance measures outlined in this Report are specific to the work of FII staff and do not include performance measures that apply to organizations funded by FII. Those external performance measures are captured in FII's Performance Management Framework, available at: [www.bcfii.ca/aboutus/corporate/corporate-governance/](http://www.bcfii.ca/aboutus/corporate/corporate-governance/). The framework includes measures used for managing funding to other organizations (in concert with Natural Resources Canada's funding administration) and for application to all of FII's internally directed projects.

## Benchmarking

In 2009/10, FII commissioned a third-party assessment to determine whether FII's performance could be meaningfully benchmarked against other organizations. The assessment reviewed nine organizations in several sectors, including forestry, and concluded that most were sufficiently different from FII as to offer no useful comparability. However, it was noted that two organizations (Natural Resources Canada and the B.C. Government's tourism marketing agency) did utilize some performance measures that could be applicable to the FII operation. FII subsequently employed a number of internal performance measures that are similar to those used in the other organizations, and many others are incorporated the corporation's overall Performance Management Framework.

In early 2014/15, FII underwent a Core Review guided by the Ministry of International Trade. The purpose of this comprehensive mandate review was to ensure that Government's investments in FII represent the best possible use of resources and respect for interests of the taxpayer. The findings of the Core Review, which incorporate the input of a broad range of FII's key stakeholders, were presented to the Cabinet Committee on Core Review in June, 2014. The FII Board will address the Committee's conclusions across the summer of 2014.

## Organizational Capacity

FII had the organizational capacity, skills and budget necessary to pursue its performance targets in 2013/14. As noted in the section "Core Business Areas", FII operates subsidiary companies in China and India to lead market development efforts in those priority markets.



British Columbia Minister of International Trade, the Honourable Teresa Wat (centre), visited Dream Home Canada, the home office of FII China and Canada Wood China, during a fall 2013 mission to China. Minister Wat toured the eight-year-old wood frame structure and participated in a market briefing and discussion with China-based staff.

## GOAL 1

### WOOD IS VIEWED AS AN ENVIRONMENTALLY-FRIENDLY, PREFERRED BUILDING MATERIAL AND B.C. IS RECOGNIZED AS A RELIABLE SUPPLIER OF QUALITY PRODUCTS FROM SUSTAINABLY-MANAGED FORESTS

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood, and wood-based products from B.C., as the first choice for environmentally-friendly building materials. This positioning creates a solid foundation for answering the questions “Why wood?”, and “Why wood from B.C.?” that are the basis for many of FII’s market development activities.

As customers factor environmental practices into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; its advantages in creating a significantly smaller environmental footprint than other building materials; and the fact that wood and pulp and paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint.

Strategies in 2013/14 in support of this goal built on the growing awareness of the benefits of wood products, and positioned B.C. as a global leader in sustaining forest resources and environmental values. This dual positioning helped strengthen awareness of, and interest in, B.C. forest products in major markets and, in turn, supported greater market share, premium positioning, and easier access to new markets.

#### Strategies to support Goal 1:

- Provide timely and factual information regarding B.C. forest products and forest practices;
- Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and a climate change context;
- Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts; and
- Monitor and advocate in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

#### Performance Measure

PERFORMANCE MEASURE	2011/12 Actual	2012/13 Actual	2013/14 Target/ Actual	TARGET		
				2014/15	2015/16	2016/17
<b>1A</b> Per cent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	98%	n/a*	90% / 98% (Achieved)	n/a*	90%	n/a*

#### Importance of Measure:

##### 1A: Positioning British Columbia as a preferred global supplier

The measure provides an indication of the effectiveness of FII’s international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered through a bi-annual survey of international customers (e.g., large institutional pulp and paper buyers, wood importers and distributors and carbon market stakeholders) conducted by Leger, The Research Intelligence Group, an independent research firm. The survey, which is co-funded by Natural Resources Canada, FII and the Forest Products Association of Canada, identifies the percentage of customers who feel that B.C.’s environmental reputation is as good as, or better than, the average of competing forest products jurisdictions. FII has seen performance strengthen over the past decade.

\* Surveys are conducted bi-annually.

## Select Highlights from 2013/2014



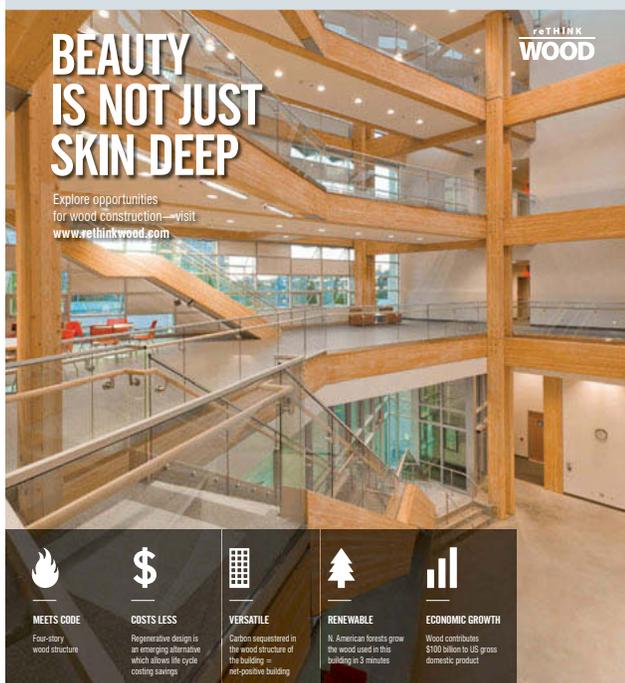
### Growing Demand for Wood: reThink Wood + the North American Wood Products Industry

FII continued to cost-share the reThink Wood program in 2013/2014 with the Binational Softwood Lumber Council and the Softwood Lumber Board. reThink Wood continues to raise awareness among architects and engineers about the potential for wood products and building systems in the design of mid-rise multifamily and non-residential buildings in North America.

In 2013/14, reThink Wood generated more than 127.5 million online impressions and 6.3 million print impressions through its earned media stories and paid advertising. A total of 57 wood-focused stories, including pieces on wood's potential in tall building construction, appeared in publications like The Economist and The New York Times.

With over 11,000 fans and followers on Facebook and Twitter, in online mentions, reThink Wood achieved 40 per cent share of voice for wood, compared with 30 per cent for concrete and 30 per cent for steel<sup>1</sup>.

Beyond media, developing and promoting wood-centric continuing education units (CEUs) for architects continues to be an important means for reThink Wood to reach and generate qualified leads. In 2013, more than 9,324 architects took more than 15,300 tests on at least one of the reThink Wood CEUs.



<sup>1</sup> Share of voice refers to the percentage of total comments attributed to a key word or phrase. In this case the comparison is between comments about wood and architecture (40 per cent of all comments) as compared to concrete and architecture (30 per cent), or steel and architecture (30 per cent).

Goal 2 focuses on achieving greater returns from sales of B.C.'s forest products. In 2013/14 this was made possible through focused market development programs in Asia (China, Japan, Korea and India) and the U.S. non residential and multi-family market. This work balanced fostering demand and expanding uses in new segments in existing and established markets, with investigating and creating demand in new and emerging markets.

Strategies under goal 2 responded to industry needs by ensuring a balance of investment between structural lumber products, coastal and interior species markets, and value added and specialty product opportunities.

Diversifying markets is a continuing focus of Goal 2 as a more diversified portfolio reduces the forest sector's vulnerability to negative market cycles. Well over half (57 per cent) of B.C.'s total exports now go to markets other than the U.S. and this broader demand base has helped to manage risk and maintain prices. China has been a critical market in this regard and FII and industry are continuing a collaborative effort to build demand there, while looking to future emerging markets such as India to further diversify the market base over the long term.

### Market Trends 2013/14

As the risk from the global financial crisis diminished further in 2013, the B.C. forest sector continued to develop a more robust and diversified trade position in Asian markets, while taking advantage of a much stronger U.S. housing market.

In 2013, B.C. exported 25.9 million m<sup>3</sup> of softwood lumber, up 7 per cent from 24.2 million m<sup>3</sup> in 2012. Sales to the US improved 9.2 per cent to 13.6 million m<sup>3</sup>, the highest since 2008; while shipments to China (including Hong Kong) grew 6.5 per cent to a record high of 8.0 million m<sup>3</sup> (valued at \$1.41 billion). Shipments to Japan, B.C.'s third largest market for wood products, were up over 8 per cent (valued at \$827 million).

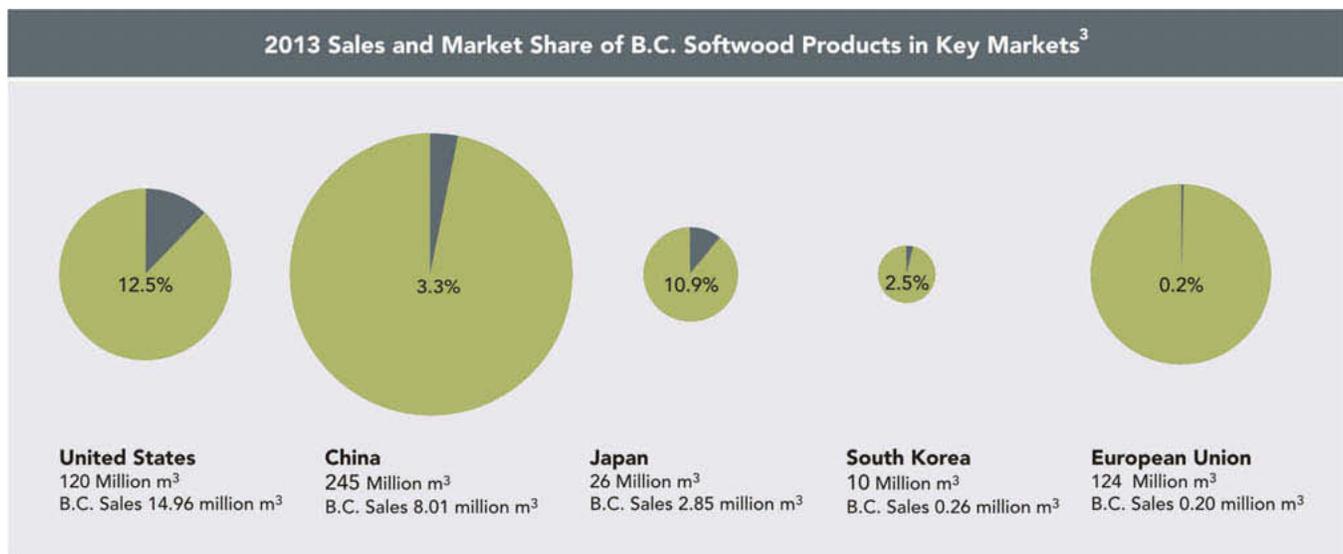
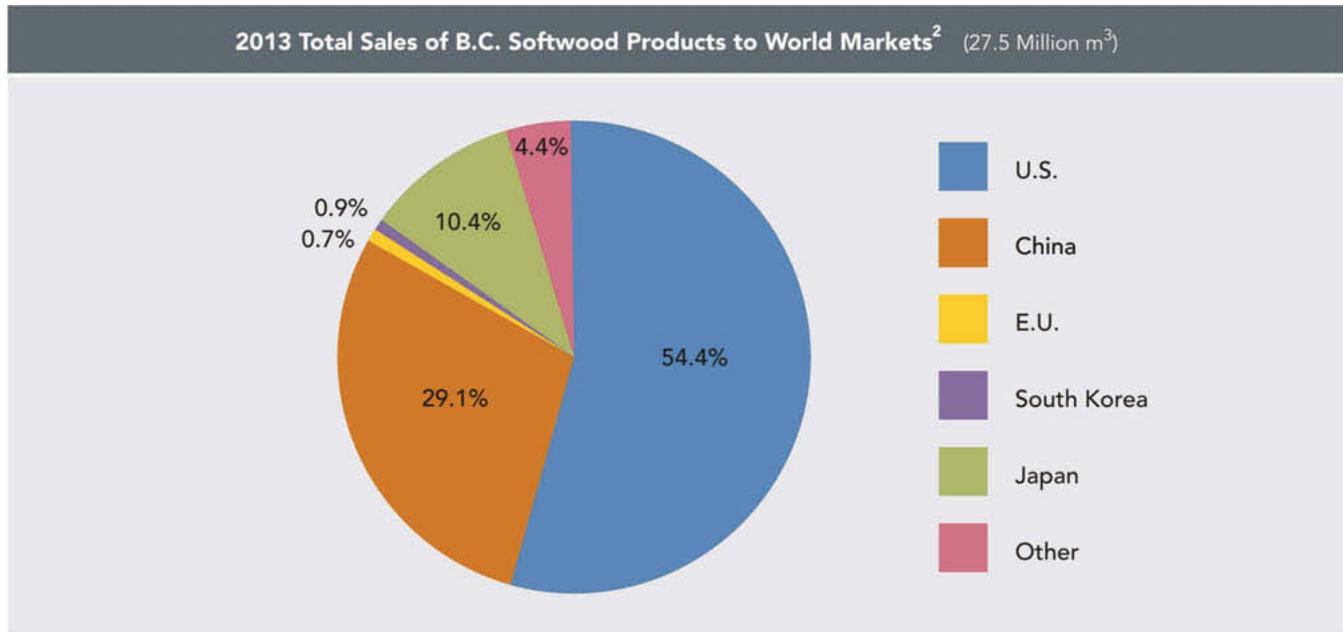
The greatest improvement in a major market occurred in the United States. With a 28 per cent increase in housing starts to just over 926,000 units in 2013, construction activity is returning to levels seen prior to the global crisis of 2008/09. Greater overall demand strengthened lumber prices in 2013/14 generating greater returns to B.C. producers. In addition to a growing overall demand, the stronger outlook for the U.S. is also driven by higher average home prices and the shift to multi-family starts which now make up 31 per cent of all U.S. housing starts. B.C. currently has a 46 per cent share of total U.S. imports of softwood products, including lumber and panels.

Even though China's GDP growth in 2013 fell slightly to a decade low of 7.6 per cent, the demand for wood products did not wane. Imports of softwood lumber by China grew 19 per cent to reach 16.9 million m<sup>3</sup>. B.C. sold \$1.41 billion worth of softwood lumber to China in 2013 (up 30 per cent from \$1.08 billion), maintained a 53 per cent share of the import market, and saw shipments increase 6.2 per cent during the year.

In Japan, Prime Minister Shinzo Abe's 'three arrows' of fiscal stimulus, quantitative easing, and structural reform sparked the Japanese economy and revitalized the housing market. Housing starts in 2013 recovered 11 per cent to 979,700 units, the highest since 2008. Wood starts (550,000 units) outpaced non-wood starts. As well, platform frame starts posted a record 120,111 units in 2013. These favourable trends were partially offset by a weakening Yen that made all imports more expensive. This worked to the advantage of domestic Japanese wood suppliers and to the disadvantage of B.C. and other foreign suppliers. Despite this, B.C.'s total volume of exports to Japan grew more than 8 per cent in 2013 and B.C. maintained close to a 40 per cent share in total imported softwood lumber.

The recovery in new housing starts in South Korea appeared to be on track since bottoming in 2008 (371,285 units). Wood building construction reached an all-time high in South Korea, growing by 3.3 per cent, to a new high of 12 per cent of total construction. While this is still a relatively small share, it is a positive sign that the niche for wood building is growing in South Korea. The economic fundamentals in South Korea were also solid with 2 per cent GDP growth, rising housing starts and low inflation and unemployment rates.

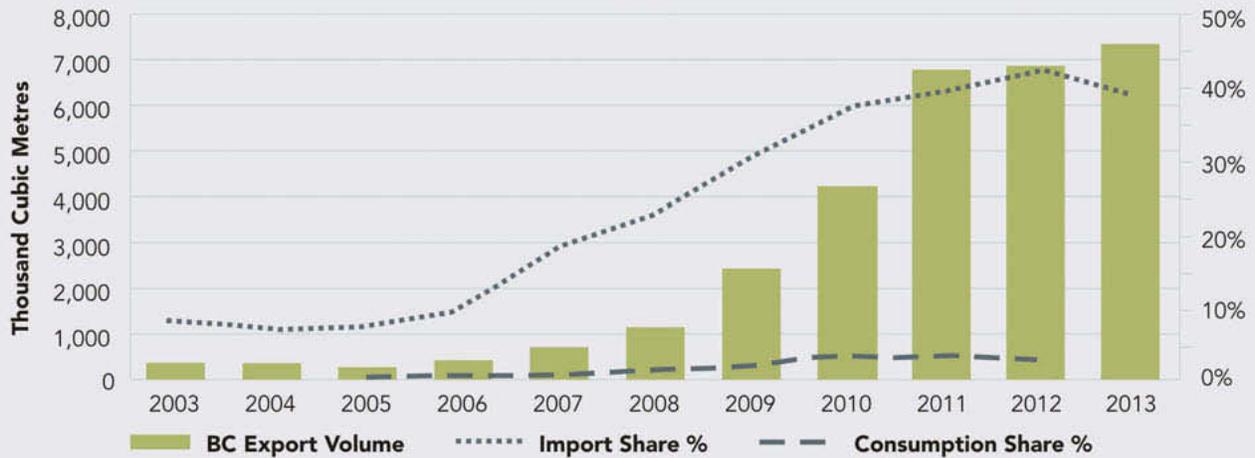
Developing the emerging market for B.C. softwood lumber in India's domestic remanufacturing industry was a major focus of FII's strategy in 2013/14. Early-stage market development initiatives are proving very successful with increased interest in softwood lumber supply due to a range of factors. FII believes that shifts within the India market are laying the groundwork for solid future demand for B.C. in India as customers there move from log to lumber imports and hardwood to softwood demand. Following the lifting of phytosanitary barriers in 2010, B.C. saw a rise in shipments, but this is expected to fluctuate as the market becomes aware of new species and demand for both hardwoods and softwoods adjusts to changing global factors.



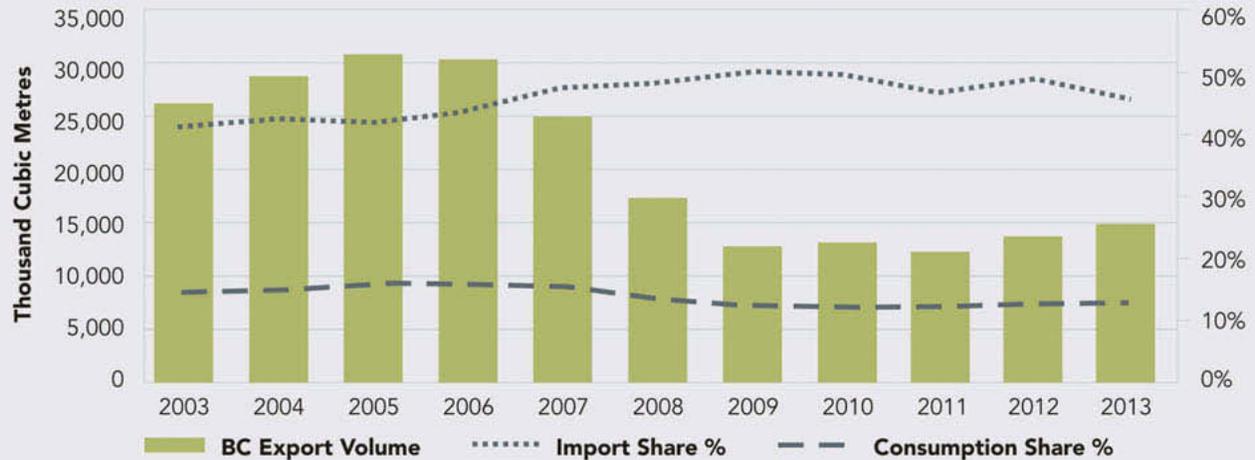
<sup>2</sup> Based on sales of five softwood products (lumber, plywood, OSB, particleboard and MDF) and B.C.'s share of total domestic consumption in each market.

<sup>3</sup> The size of the circles is proportional to the total size of each market for the five softwood product lines. Note: China consumption data includes hardwood plywood and is an estimate - complete data on wood consumption in China will not be available until late 2014.

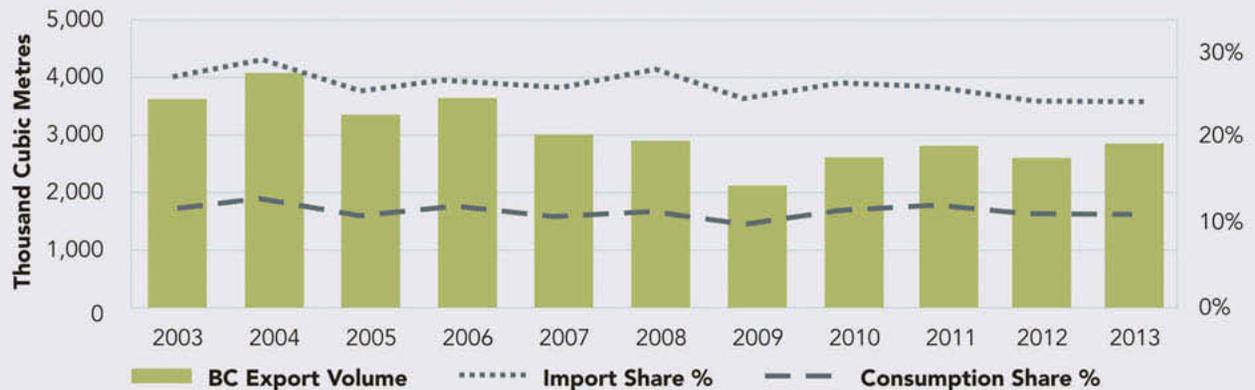
**B.C. Softwood Commodity Product Sales in China** (Softwood lumber, plywood, OSB, MDF and particleboard)



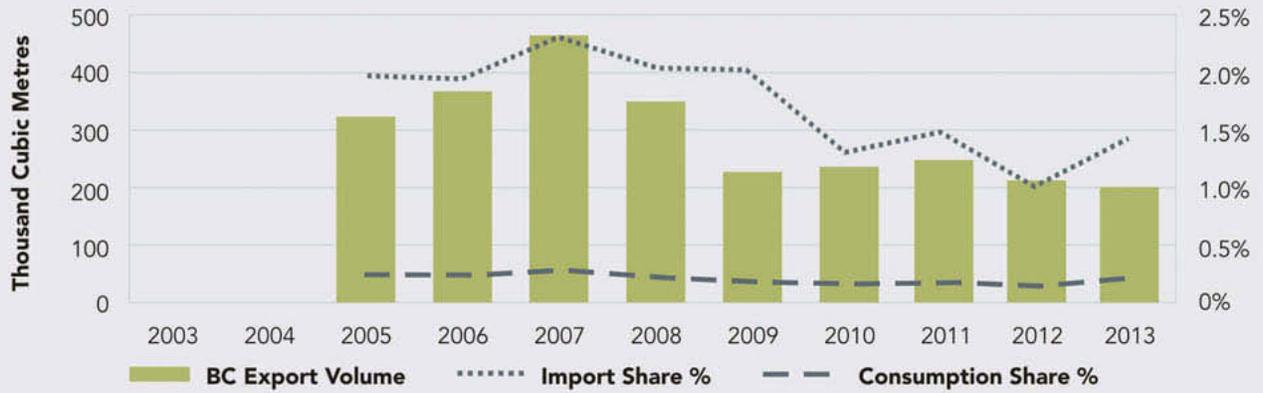
**B.C. Softwood Commodity Product Sales in U.S.** (Softwood lumber, plywood, OSB, MDF and particleboard)



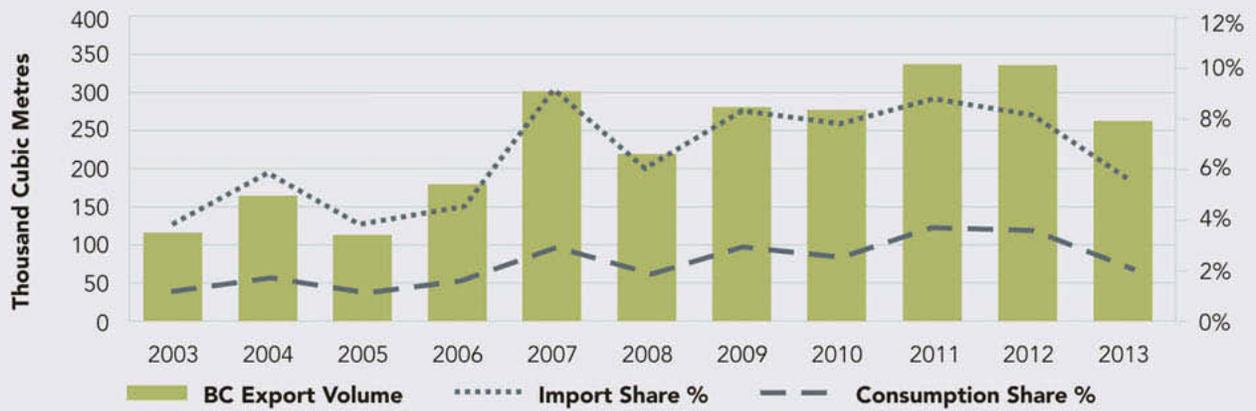
**B.C. Softwood Commodity Product Sales in Japan** (Softwood lumber, plywood, OSB, MDF and particleboard)



**B.C. Softwood Commodity Product Sales in E.U.<sup>4</sup>** (Softwood lumber, plywood, OSB, MDF and particleboard)



**B.C. Softwood Commodity Product Sales in South Korea** (Softwood lumber, plywood, OSB, MDF and particleboard)

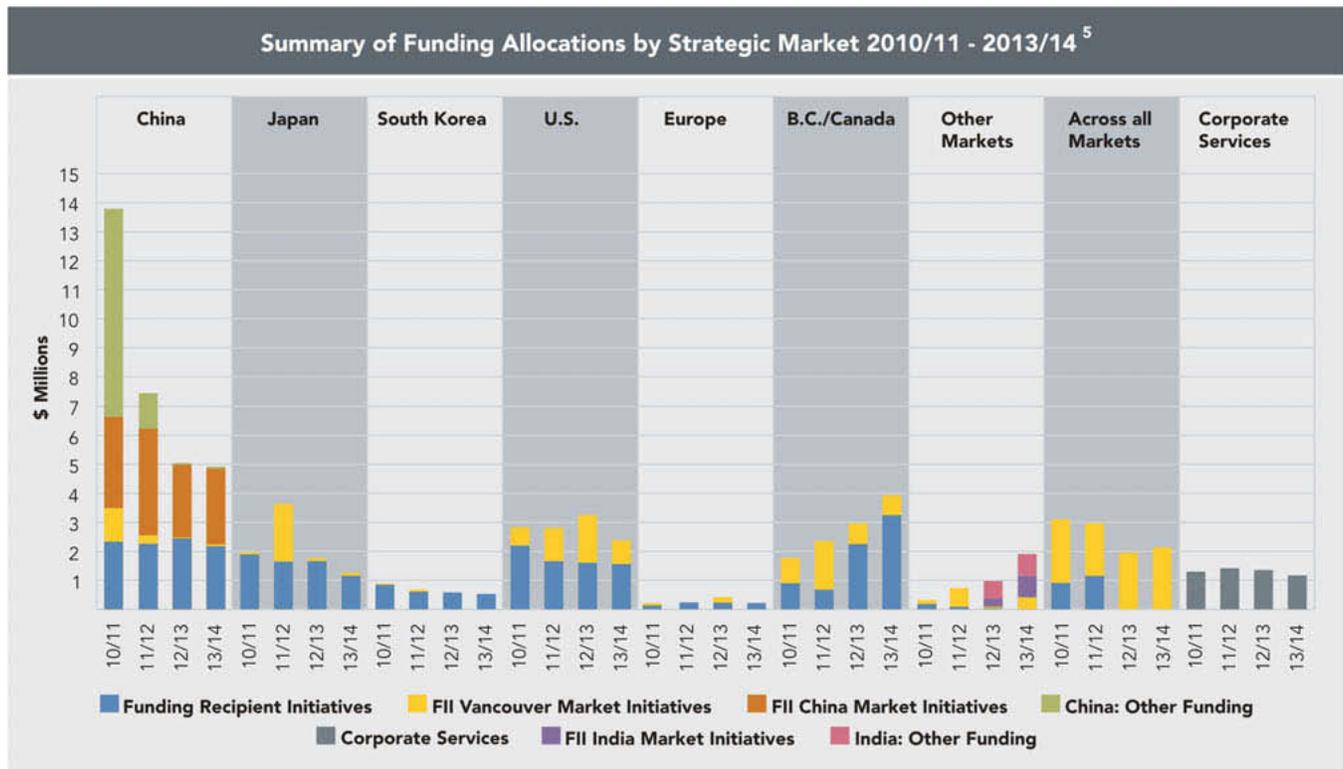


<sup>4</sup> Due to a change in data sourcing methodology, B.C. market share data in the E.U. is only available from 2005

## Strategies to Support Goal 2

Support the B.C. forest industry to develop and diversify markets for B.C. wood products in new and existing markets by:

- funding trade association market development programs based on priorities outlined in FII's annual investment strategies;
- engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets;
- initiating early-stage market development efforts in emerging economies;
- completing disaster reconstruction projects under the Canada-Tohoku Reconstruction project in Japan;
- partnering with the federal government and working with B.C. and bi-national trade associations to expand the use of wood in the non-residential and multi-family construction sectors in North America; and
- engaging industry and institutional partners to explore market development potential for commercial or near-commercial bio-products.



<sup>5</sup> **Funding Recipient Initiatives** refers to funding provided to industry associations and other groups to carry out market development activities that they propose. Recipient Funding also includes funding for the Business Innovation Partnership. Amounts include associated program administration.

**FII Vancouver Market Initiatives** refers to funding for product and market development activities managed directly by FII, including market research, market outreach and demonstration projects.

**FII China Market Initiatives** refers to activities directly managed by FII Consulting (Shanghai) Co. Ltd.

**China: Other Funding** refers to funding provided by the B.C. Ministry of Jobs, Tourism and Innovation, the federal government (Natural Resources Canada) and other agencies.

**Corporate Services** refers to FII's accounting and general office functions that support all program delivery

**India: Other Funding** refers to funding provided by the federal government (Natural Resources Canada)

## Performance Measures

PERFORMANCE MEASURE	2011/12 Actual	2012/13 Actual	2013/14 Target/ Actual	TARGET		
				2014/15	2015/16	2016/17
<b>2A</b> B.C. Softwood Lumber Exports to priority Asia Pacific markets (000's of m <sup>3</sup> ) <sup>6</sup>						
China	7,343	7,506	7,550 / 8,001 (Achieved)	7,900	8,100	8,300
Japan <sup>7</sup>	2,497	2,442	2,775 / 2,649 (Substantially Achieved)	2,900	3,000	3,100
South Korea	168	189	220 / 237 (Achieved)	265	290	315
<b>2B</b> Incremental sales generated in U.S. non-residential market (millions of board feet)	257	115	370 / 306 (Not Achieved)	460	580	720

Performance measures and targets for Goal 2 were developed based on independent, third-party research on market potential, particularly forecasting work undertaken for FII by MSC Marketing Solutions Consulting Ltd. in the fall of 2013<sup>8</sup>. Supplementing this were FII's internal market research and other market projections developed in consultation with industry relative to specific market opportunities.

## Importance of Measures

### 2A: B.C.'s exports of softwood lumber to priority Asia Pacific markets

This measure ultimately tracks the level of market diversification by the B.C. forest industry in Asia (and, as a consequence, the degree to which the B.C. forest sector's depends on the U.S. market is lessened over time). The target is heavily weighted to sales in China, where FII investments are leveraging major market development efforts with industry and the federal and provincial governments. Export volume totals are based on Statistics Canada data with export forecasts derived from published third-party analysis as well as FII and industry detailed market opportunity analysis. Data interpretation and forecasts are consistent with industry measurement practices.

In 2013/14 B.C. exceeded the export volume target for China and South Korea under measure 2A and achieved 95 per cent of the target for Japan. While B.C.'s total exports to Japan increased by a healthy 8 per cent during 2013, the volume target for Japan was not fully achieved due to depreciation of the Yen, which dampened purchasing power of Japanese customers, and an increased push for use of domestic species by the Japanese Government. Tsunami reconstruction efforts have also been slower to progress than originally anticipated. Overall economic indicators in Japan were down in 2013 and this contributed to a slightly more challenging environment than anticipated.

<sup>6</sup> Performance Measure 2A is broadly influenced by global economic conditions beyond the control or direct influence of FII or the provincial government (refer to discussion under "Risks and capacity issues"); however, export data provide a reliable indicator of overall progress by FII and its funding recipients in fostering market diversification.

<sup>7</sup> It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now often exported from B.C. to China, manufactured into value-added products, and re-exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

<sup>8</sup> MSC was contracted by FII to develop a model to project total lumber consumption in select Asian markets over the five-year time horizon 2013 – 2016. This work builds on previous market potential work undertaken for FII as well as other public and proprietary third-party research.

## 2B: U.S. non-residential sales:

In the U.S. non-residential market, B.C. experienced significant growth on the 2012/13 sales number; however, this did not meet earlier forecasts for 2013/14 and this target was not achieved. It should be noted that this measure is derived from a calculation of the direct and indirect impact of program activities in the U.S. and does not capture all non-residential construction growth in the market. FII is continuing to work with partners and stakeholders in the U.S. to improve tracking and measurement of program impacts, and in 2014/15 is undertaking work to identify broader based measures that may better reflect B.C.'s total market potential.

Despite restructuring in the U.S. program last year, and slower recovery than expected in key market segments in the U.S., 2013/14 still saw a substantial upturn in program-related sales for B.C. and an improved outlook for most producers. However, this did not meet earlier expectations that the U.S. recovery would occur more rapidly. Targets for 2014/15 are expected to be achieved based on a re-focusing of the U.S. program, the positive future outlook for demand, and increasing construction activity and prices in the U.S.

## Risk and Capacity Issues

Performance measures 2A and 2B were influenced by market factors beyond the control of FII and its funding partners, and by the performance of the industry market development programs supported by the funders. These performance measures are part of a much wider set of measures and targets that are set for each project as part of the FII funding approval process. All of these measures are directly linked to FII's broader goals and objectives under the organization's performance management framework.

FII had the staff and resources to manage the investment program supporting Goal 2 in 2013/14 and undertook a broad based monitoring and audit process to track progress and ensure delivery in line with FII's policies and eligible cost rules.

## Select Highlights from 2013/2014



### China: Building Stronger Ties with Shanghai's Housing Bureau

The completion of the Administration Centre at the Sanlin Affordable Housing Project demonstrated the viability and benefits of wood frame construction to the Shanghai Housing Bureau and other project stakeholders such as large state-owned construction companies and government inspectors. The Shanghai Housing Bureau's faith in wood frame construction fostered through the Sanlin demonstration project, led directly to the signing of an enhanced MOU between the housing bureau and the Province of British Columbia. In October 2013, Minister of Forests, Lands, and Natural Resources Steve Thomson signed the MOU on behalf of the province during a joint government-industry trade mission to China. The enhanced MOU calls for greater cooperation in the areas of new wood frame technology applications and joint promotional efforts.



### South Korea: Hands on University training program

Canada Wood has continued to expand its wood frame construction training program in South Korea with a mix of seminars for existing professionals, trade event workshops and hands on training for architectural students at over 10 universities. In 2013/14, over 1,800 students and professionals received practical training in building and designing with wood.

## Select Highlights from 2013/2014

### The BCFII office: India lets the wood speak

After establishing FII India in mid-2012, a decision was made to secure undeveloped office space rather than prefinished space. This allowed FII India to outfit the office using B.C. wood species in end-use applications that reflect the company's strategy for India. The fit out process was largely completed by the end of 2013 with an official opening event scheduled for later in 2014.

FII India's office is designed to use every opportunity to demonstrate key applications for B.C. species. The interiors of the office (paneling, furniture, doors, and millwork) have been designed and finished in B.C. species donated by or purchased from Canadian companies. The office not only showcases B.C. species in applications suitable to the India marketplace, but has also allowed local manufacturers to become familiar with B.C. species while manufacturing various office components. Every major B.C. species has been included in this natural showcase for the beauty of B.C. wood products. Each species is used in a way that fits its qualities and emphasizes the flexibility of the products. FII continues to receive many compliments for this creative demonstration of B.C.'s wood species.



*Minister of International Trade Teresa Wat (front row) and Isoo Sasaki Mayor of Natori City Japan pictured with representatives of B.C. forest product companies that contributed to the Canada Tohoku Reconstruction Project.*

### Japan: Canada Tohoku Reconstruction Project

Excellent progress was made on the \$4.6 million Canada Tohoku Reconstruction Projects in Japan during 2013/14. In May 2013, the second major reconstruction project, the Yuriage Public Market in Natori, was officially opened with some 40,000 people attending the market during the day. In October, a B.C. forest sector mission led by the Minister of Forests, Lands and Natural Resource Operations Steve Thomson, visited the Canada Tohoku projects to further relationships with local and national government agencies developed through the first two reconstruction efforts in Natori. During the October mission, the delegation also traveled to Fukushima Prefecture in the centre of the tsunami zone to witness the signing of an agreement for building a third project under the initiative, a much-needed facility for disabled children located in Iwaki City. The Canada Tohoku Reconstruction Project is made possible through funding of \$2 million each from the B.C. and federal governments, \$460,000 from industry and \$150,000 from the Government of Alberta.

## GOAL 3

### B.C. IS A WORLD-CLASS CENTRE OF EXCELLENCE IN DEVELOPING AND USING INNOVATIVE WOOD PRODUCTS AND BUILDING SYSTEMS

Goal 3 supports the Government of B.C.'s objectives to generate greater added value in the forest economy and to raise the profile of B.C.'s world-class wood products and building systems both domestically and abroad. Strategies to achieve this goal are delivered primarily through Wood First, a program managed by FIL.

In 2013/14, Wood First focused on creating a culture of wood use in the province, specifically to accelerate the adoption of wood in non-residential and multi-family residential construction. The program also implemented initiatives to expand the use of wood building products and systems through research, education, training and promotion activities carried out by academic institutes, research organizations and wood industry associations. During the year, Wood First continued to leverage the provincial Wood First Act which, since its enactment in 2009, has encouraged the use of wood products, technologies and building systems in publicly-funded construction. As indicated by the large number of local governments across the province that have adopted a wood-use policy, momentum for the use of wood in public construction continues to grow.

Wood First's success at showcasing B.C.'s expertise and innovation in wood products, such as research into tall wood buildings, is paying dividends in foreign markets where B.C. is increasingly being seen as a market leader in innovative technology, design, products and wood use.

#### Strategies to support Goal 3

- Work with industry and government stakeholders to establish a "culture of living and building with wood" in B.C.
- Maximize the appropriate use of wood in B.C.'s public and private construction by:
  - leveraging Provincial capital projects to showcase wood construction;
  - encouraging local and regional governments to adopt "Wood First" policies;
  - providing technical support to local governments and industry on wood building systems;
  - supporting technical research, and product and systems development to ensure B.C. has the capacity to produce high-quality wood-based products and building systems.
- Accelerate the adoption of existing and emerging wood-based products and building systems in B.C. by working with regulatory authorities, research institutions and the development community to increase collaboration, broaden building codes, demonstrate technology, and increase the overall capacity of the sector to utilize wood products and systems.

#### Performance Measures

PERFORMANCE MEASURE	2011/12 Actual	2012/13 Actual	2013/14 Target/ Actual	TARGET		
				2014/15	2015/16	2016/17
<b>3A</b> Incremental sales generated in the B.C. non-residential market (millions of board feet)	61	72	75/60 (Not Achieved)	80	88	90
<b>3B<sup>9</sup></b> Per cent of allowable floor area (B.C. government buildings) built with wood	n/a	18%	n/a	n/a	n/a	n/a

<sup>9</sup> Due to the removal of the measure, no forecast is available for 2016/17.

## Importance of Measures

### **3A: Incremental sales generated in the B.C. non-residential market**

This measure tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the Wood First strategy. The measurement, which is tracked by the Canadian Wood Council, is the incremental wood volumes generated through direct program activities funded by FII and delivered by the Canadian Wood Council's BC WoodWORKS! Program. It is also intended to capture the influence of other related program delivered on behalf of FII by BC Wood Specialties Group, FPInnovations and the Centre for Advanced Wood Processing at UBC. The performance tracking methodologies between the U.S. and Canadian non-residential programs were rationalized by the Canadian Wood Council during the period of 2013/14, which will facilitate greater comparability between the programs.

While the number of building projects influenced by the program in 2013/14 increased by approximately 55 per cent, the incremental wood volume dropped below target due to a decline in the average wood use per project versus 2012/13.

### **3B: Percentage of allowable floor area built with wood**

This measure was intended to quantify actual wood use in publicly funded buildings as an indicator of progress in meeting the objectives of the Wood First Act. The performance measure was removed for the 2014/15 – 2016/17 Service Plan due to fundamental issues of attribution and to difficulties in assembling and interpreting data. FII is currently working to develop a more practical measure of the program's performance in fostering a "culture of wood in B.C." The focus is on establishing a metric that complements the Canadian Wood Council's non-residential tracking by capturing the broader trends in wood use across B.C. and the rest of North America. The new metric and associated benchmarks should be ready for inclusion in the 2015/16 – 17/18 Service Plan.

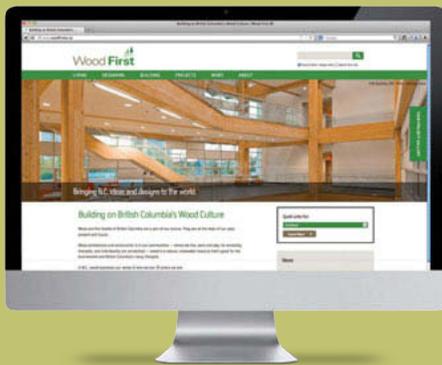
## Select Highlights from 2013/2014



### Increasing Numbers

Wood First activities are gaining popularity. In 2013/14, the uptake of events organized by Wood First funding recipients increased significantly. More design professionals in B.C. are now signing up for training through discussion forums and conferences, eager to learn about the latest development in wood design and construction and prepare themselves to take on innovative projects. Consequently, more wood projects are being recognized for their innovation and achievements.

Activity	Measure	2012/13	2013/14	% Increase
Outside the Box Forum	Total attendees	45	84	+87%
Holzbau technical Tour & Conference in Europe	Total attendees	12	20	+67%
Canadian Wood Council Wood Design Awards Luncheon Conferences	Total attendees	448	465	+4%
Wood Solutions Fair	Total attendees	1144	1200	+5%
Wood First Forum	Total attendees	90	142	+57%



### New Wood First website highlights project profiles

A Wood First in B.C. web site was launched by FII in late 2013. The site provides information and the latest news on how British Columbians are living, designing and building with wood. It also provides resources that users can access for more information on all aspects of wood, wood use and the wood sector in B.C. A key section of the website contains profiles of the many innovative, publically-funded projects that were built in accordance with the Wood First Act or with the encouragement of municipal government wood-use initiatives.

Profiles of a range of public buildings that showcase the use of wood are available at:

[www.woodfirstbc.ca](http://www.woodfirstbc.ca)

### Fire Safety Requirements in Building Code

FII continues to generate information that supports and informs building code changes. In collaboration with the Building and Safety Standards Branch, a comparison of the fire safety requirements in the B.C. Building Code with those of other international jurisdictions was carried out in 2013/14 by an expert company in fire safety. The study has helped to define and communicate that the use of wood in construction provides an acceptable level of safety when combined with current fire protection measures and construction technologies.



## GOAL 4

### FII SERVES ITS STAKEHOLDERS IN A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE MANNER

FII maintained its commitment to sound business practices in 2013/14 by incorporating robust financial controls, and a performance management framework that includes monitoring, audit and evaluation built on a comprehensive risk-assessment strategy. All of these elements reflect Government of B.C. policies and best practices. FII also maintained its commitment to a path of environmental sustainability by minimizing its environmental footprint.

FII placed significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. By doing so, FII was able to leverage the expertise and financial resources of key players across the Canadian and international forest sectors and created critical mass in the development and delivery of strategic and focused market and product development programs.

#### The strategies to achieve Goal 4:

- Ensure FII is efficient, transparent and results focused by:
  - keeping corporate support costs at or below 7 per cent of total budget;
  - implementing a rigorous performance management system; and
  - monitoring and auditing funded projects according to explicit risk assessments.
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia.
- Maximize the financial contributions of key partners to core programming.
- Minimize FII's carbon footprint and promote environmentally responsible business activities.

#### Performance Measures

PERFORMANCE MEASURE	2011/12 Actual	2012/13 Actual	Target/Actual 2013/14	TARGET		
				2014/15	2015/16	2016/17
<b>4A</b> Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process was completed by April 1	Competitive funding process was completed by April 1	Competitive funding process to be completed by April 1 / Process completed by April 1st (Achieved)	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1
<b>4B</b> Partner contribution to annual recipient funding program	65%	65%	65% / 66% (Achieved)	65%	65%	65%

#### Importance of Measures

##### 4A: Timeliness of Annual Funding Cycle

Each year, approximately half of FII's budget is used to fund activities proposed through two annual Calls for Proposals, one for market development and the other for Wood First. These processes typically attract over 50 proposals describing many hundreds of activities and detailing specific cost estimates and cost sharing. Proposals are peer reviewed and point-ranked against pre-set evaluation criteria. Performance Measure 4A tracks how efficient FII is in managing the annual funding process, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year. Performance target 4A was met in 2013/14.

#### 4B: Partner Contributions

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs on behalf of the Government of B.C. The willingness of industry partners, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value placed on these activities. Data to support the measure is sourced from the on-line recipient program system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial analysis. Performance target 4B was met in 2013/14.

#### Risk and Capacity Issues:

FII had the staff and resources to pursue Goal 4 in 2013/14.

#### Select Highlights from 2013/2014



#### Maximizing Leverage and Impact

In 2013/14, FII was again able to leverage substantial program contributions from partners in Canada and the U.S. FII's \$9.9 million investment in matched dollar programming during the year attracted a total of \$20.3 million in contributions from other organizations, including Natural Resources Canada, the Softwood Lumber Board, the Bi-National Softwood Lumber Council and industry. This resulted in a total matched funding program of over \$30 million in 2013/14.

Natural Resources Canada Minister Joe Oliver (fifth from left) announces a \$600,000 contribution to FII's India's market development program while visiting the Joint FII and B.C. Trade and Investment Office in Mumbai, India, January 2014.

## Change to Goals and Performance Measures since Publication of the June 2013/14 Service Plan

FII's goals, strategic initiatives and performance measures remain largely unchanged from since the publication of the 2013/14 – 15/16 Service Plan. The only exception was in Goal 3, where the secondary measure of performance, "Percentage of Allowable Floor Area Built with Wood" was dropped during the year due to fundamental issues of attribution and to difficulties in assembling and interpreting data. As noted in discussion under Goal 3, research is being undertaken to develop a more practical measure of the program's performance in fostering a "culture of wood in B.C."

## Economic, social, demographic and industry factors

As a market development agency active around the world, FII's results are influenced by a variety of macro-economic factors, including exchange rates and the growth of the world economy, and market-specific factors, such as capital investment within individual countries, like China.

While these factors are generally beyond the control of FII, assumptions regarding the nature and influence of these factors are included in the annual planning and goal setting activities of the organization. In 2013/14, the impact of both macro economic and market-specific factors largely fell within the range of assumptions used by FII in establishing performance targets.

The major exception was in Japan, where the depreciation of the Yen against the Canadian and U.S. dollars was greater than anticipated. This lessened overall demand for B.C. forest products as a weaker currency made imports more expensive. Also impacting FII operations during the year was the depreciation of the Canadian dollar against a basket of global currencies, including the U.S. dollar. This had the positive effect of increasing sales returns to exporters as B.C. commodity wood exports are generally priced in U.S. dollars. However, the weaker Canadian dollar also acted to increase the costs of delivering market development programs abroad. As many trade associations operate on fixed contribution levels (in Canadian dollars) from their members, the result in 2013/14 was an effective reduction in overseas operating budgets.

### Risks and opportunities factors

The following risks and opportunities impacted FII's performance in 2013/14. The list is based on factors outlined in the 2013/14-2015/16 Service Plan. The table reports the actual impact of each factor and the actions taken by FII to either mitigate the risk or take advantage of the opportunity. In some cases the impact is reported for the calendar year 2013 due to how data is gathered for international sales of wood products by Statistics Canada and other reporting agencies.

RISKS OR OPPORTUNITY	SITUATION	FII RESPONSE
<b>CURRENCY FLUCTUATIONS</b>		
<p>RISK:</p> <ul style="list-style-type: none"> <li>Fluctuations in foreign currencies affect costs of delivering programs in foreign markets</li> </ul>	<ul style="list-style-type: none"> <li>During 2013/14, the value of the Canadian dollar against the U.S. dollar and Chinese RMB declined by over 10 per cent.</li> </ul>	<p>Goal 4: organizational effectiveness</p> <ul style="list-style-type: none"> <li>FII managed its exposure to currency risk during the year by purchasing foreign currencies when market indicators were favourable and by making payments to subsidiaries in foreign denominated currencies.</li> </ul>
<b>ASIAN MARKET DEMAND</b>		
<p>RISK:</p> <ul style="list-style-type: none"> <li>Regional economic growth could be lower than projected, leading to lower export values</li> </ul>	<ul style="list-style-type: none"> <li>Asian economies grew in 2013, with Chinese growth slightly less than projected</li> <li>Sales targets were substantially achieved</li> </ul>	<p>Goal 2: market development</p> <ul style="list-style-type: none"> <li>Market-specific strategies, such as in China and Japan, continued to target higher value sales, particularly construction grade products for the wood frame construction market.</li> <li>Expansion of market development into India was designed to broaden regional presence and reduce market-specific risk</li> </ul>
<b>CHINESE POLICY ON ENERGY CONSERVATION AND CLIMATE CHANGE</b>		
<p>OPPORTUNITY:</p> <ul style="list-style-type: none"> <li>Chinese policy shift towards green building and energy conservation will lead to greater demand for wood-frame construction</li> </ul>	<ul style="list-style-type: none"> <li>Policy implementation continued, with wood-frame construction identified as a green building system.</li> </ul>	<p>Goal 2: market development</p> <ul style="list-style-type: none"> <li>FII staff continued working with Chinese officials and developers to confirm wood-frame construction as an energy-efficient and a climate friendly building system.</li> </ul>

RISKS OR OPPORTUNITY	SITUATION	FII RESPONSE
<b>TALL WOOD STRATEGY</b>		
<p>OPPORTUNITY:</p> <ul style="list-style-type: none"> <li>Growing global interest in building taller with wood</li> </ul>	<ul style="list-style-type: none"> <li>The University of B.C. is proposing to construct a 16-18 storey tall wood building on campus. If constructed, it would be the world's tallest wood building.</li> </ul>	<ul style="list-style-type: none"> <li>In light of the project's significance, FII re-allocated funds during the year to help move the project forward. FII's contribution was a factor in leveraging financial support from the federal government's Tall Wood Demonstration Initiative.</li> </ul>
<b>COASTAL INDUSTRY</b>		
<p>RISK:</p> <ul style="list-style-type: none"> <li>Market demand for Coastal species (hem-fir) would remain weak</li> </ul>	<ul style="list-style-type: none"> <li>Market rebound increased output across the industry, but coastal production remains below capacity</li> </ul>	<p>Goal 2: market development</p> <ul style="list-style-type: none"> <li>FII funded Western Red Cedar promotion to support sales of the coast's highest profit species.</li> <li>In several regions, most notably Japan and India, FII focused on market development initiatives specific to coastal products.</li> </ul>
<b>ADVANCES IN BUILDING SYSTEMS AND PRODUCTS</b>		
<p>OPPORTUNITY:</p> <ul style="list-style-type: none"> <li>New wood products and building systems expand market potential</li> </ul>	<ul style="list-style-type: none"> <li>CLT continues to establish itself as a viable alternative to traditional materials in taller and larger construction</li> <li>"Tall wood" concept developed broader interest with architects and engineers</li> </ul>	<p>Goal 1: benefits of wood</p> <ul style="list-style-type: none"> <li>FII continues its program of promoting the benefits of wood construction and using science-based arguments to refute criticism of wood-based building systems</li> </ul> <p>Goal 2: market development</p> <ul style="list-style-type: none"> <li>FII and its funding recipients promoted the cost competitiveness of wood-based building systems in non-residential sector.</li> </ul> <p>Goal 3: Wood First</p> <ul style="list-style-type: none"> <li>FII funded research and development of new wood building systems and products</li> </ul>
<b>CONSUMER ATTITUDES TOWARDS THE ENVIRONMENT</b>		
<p>RISK &amp; OPPORTUNITY</p> <ul style="list-style-type: none"> <li>Consumer sensitivity on global forest practices impacts demand</li> <li>Consumer shift to green products</li> </ul>	<ul style="list-style-type: none"> <li>Consumer interest on environmental issues remains high</li> <li>Consumer awareness of the green benefits of wood continued to grow</li> <li>Consumer acceptance of B.C. forest management practices was maintained at a very high level (98% approval)</li> </ul>	<p>Goal 1: benefits of wood</p> <ul style="list-style-type: none"> <li>FII continued its strategy of promoting the high environmental standards of B.C. sustainable forest practices</li> <li>FII continued to promote the environmental benefits of building with wood</li> </ul>

## Corporate Environmental Responsibility

FII is committed to environmental sustainability in order to protect the natural environment and the B.C. economy for future generations. This approach allows FII to continue delivering short- and long-term benefits to stakeholders, employees and the communities where FII operates, while enhancing the capacity to conduct business. FII has established two overarching priorities as the basis of its environmental responsibility policy:

- reducing the intensity of the organization's environmental footprint; and
- promoting environmentally responsible business activities.

Computers and other equipment were replaced with Energy Star rated equipment through attrition. Increased use of electronic and social media and digital storage helped to reduce the demand for printed materials, while a recycling program ensured paper and related products were re-purposed.

In 2013/14, FII continued to achieve carbon neutrality through initiatives to reduce energy and carbon consumption and through the purchase of 197 tonnes of carbon credits from the Pacific Carbon Trust.

Details on the actions being taken in support of the policy are posted at: [www.bcfii.ca/aboutus/corporate/corporate-reports](http://www.bcfii.ca/aboutus/corporate/corporate-reports).

## Government's Letter of Expectations

The Province of British Columbia is the sole shareholder of FII. The Government's Letter of Expectations (GLE) sets out the Province's annual direction to FII, including key performance expectations. The GLE for 2013/14 confirmed FII's mandate to:

- position British Columbia as a global supplier of world-class environmentally friendly forest products;
- actively maintain, create and diversify demand for B.C. forest products in Canada and in key world markets;
- help break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- work with the forest industry to promote B.C.'s world-leading forest products and forest management to the global marketplace; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

Further details on these directives are available at <http://www.bcfii.ca/aboutus/corporate/corporate-reports>.

The GLE also set out a number of specific goals, as summarized in the following table:

GLE DIRECTIVE	RESULT & ACTION TAKEN
<p>China: achieve 10.7 million m<sup>3</sup> of softwood lumber sales in 2013/14</p>	<p>Result: Revised goal – achieved</p> <ul style="list-style-type: none"> <li>• As noted in the 2013/14-2015/16 Service Plan, the performance target for sales in China was revised due to significant changes in market conditions that occurred after the completion of the GLE. These factors included a slowing Chinese economy, which reduced demand, and a rebound in the U.S. housing market which shifted sales of B.C. wood products towards the United States. As a result the performance target for China was revised to 7.55 million m<sup>3</sup> of softwood lumber. This target was exceeded, with sales of 8.001 million m<sup>3</sup>.</li> <li>• Actions taken in 2013/14 to support achievement of this goal were based on continuing the joint market development strategy with industry that has been in place in China since 2005. Under this strategy, Canada Wood Group leads commercial market development programs, while FII China manages outreach programs with government agencies and state-owned development companies.</li> </ul>
<p>Japan: achieve 2.775 million m<sup>3</sup> of softwood lumber sales in 2013/14</p>	<p>Result: Substantially achieved</p> <ul style="list-style-type: none"> <li>• Sales of softwood lumber products were 2.65 million m<sup>3</sup>, about 95 per cent of the target of 2.775 million m<sup>3</sup>. Exports were marginally lower than forecast due to an appreciation in the value of the Japanese Yen (leading to higher prices for Canadian lumber) and the introduction of Japanese government policies designed to stimulate demand for domestic wood species.</li> <li>• As in past years, market development in Japan was led by Canada Wood Group, with funding and trade mission support from FII, and funding support from Natural Resources Canada.</li> <li>• Market development targeted niche markets in elder care facilities, post-and-beam construction, 2X4 wood frame construction, and value-added sectors. Progress was made in revising building and fire codes to accommodate B.C. OSB products.</li> <li>• A priority was placed on continuing the \$4.6 million Canada-Tohoku Reconstruction project, announced in 2011 following the devastating tsunami.</li> </ul>

GLE DIRECTIVE	RESULT & ACTION TAKEN
<p>South Korea: achieve 187,000 m<sup>3</sup> of softwood lumber sales in 2013/14</p>	<p>Result: Revised goal – achieved</p> <ul style="list-style-type: none"> <li>As noted in the 2013/14-2015/16 Service Plan, the performance target for sales in South Korea was revised due to more favourable market conditions that occurred after the completion of the GLE. As a result the performance target for South Korea was revised upwards to 220,000 m<sup>3</sup> of softwood lumber. This target was exceeded, with sales of 237,000 m<sup>3</sup>.</li> <li>As in past years, market development is led by Canada Wood Group, with funding from FII and Natural Resources Canada.</li> <li>Market development targeted mid-rise, hybrid and new developments emphasizing “green” or sustainable building techniques and products.</li> </ul>
<p>United States: achieve 500 million board feet of incremental lumber sales in the non-residential construction sector</p>	<p>Result: Revised goal not achieved</p> <ul style="list-style-type: none"> <li>As noted in the 2013/14-2015/16 Service Plan, FII relies on data from the Wood Products Council (WPC) for this performance target. Following the completion of the GLE, the WPC announced that it was introducing a new tracking system and revising targets accordingly. This led to a revision in the FII performance target to 370 million board feet. Actual sales were 306 million board feet. While this was up 67 per cent over 2012/13, it failed to meet forecast due to the slower than anticipated recovery in the U.S. non-residential market.</li> <li>In 2013/14 FII worked with the Softwood Lumber Board, Binational Softwood Lumber Council and Natural Resources Canada to promote wood frame construction for non-residential applications to architects and designers</li> </ul>
<p>British Columbia: lead the Province’s Wood First initiative</p>	<p>Result: Achieved</p> <ul style="list-style-type: none"> <li>FII managed the Wood First program in 2013/14 and worked with industry and stakeholders to promote a “culture of living and building with wood in B.C.”</li> <li>Outreach programs to architects, engineers and builders, as well as local government initiative were delivered by contracted industry associations</li> <li>FII directly oversaw a number of research efforts related to broadening wood use and supporting changes to building codes and other regulatory mechanisms</li> </ul>

GLE DIRECTIVE	RESULT & ACTION TAKEN
<p>British Columbia: achieve 80 million board feet of incremental lumber sales in the non-residential construction sector</p>	<p>Result: Revised goal not achieved</p> <ul style="list-style-type: none"> <li>The goal reflects the target set for the Wood First program and is designed to measure the incremental wood volume attributed to the program</li> <li>Actual volume influenced was 60 million m<sup>3</sup>. Although the number of building projects influenced rose 55 per cent during the year, the average volume of wood influenced per project was down year over year.</li> </ul>
<p>Ensure that 90 per cent of customers feel that choosing forest products from B.C. is a good choice for the environment</p>	<p>Result: Achieved</p> <ul style="list-style-type: none"> <li>The bi-annual tracking survey of customer attitudes reported a 98 per cent score on the metric (choosing forest products from B.C./Canada is a good choice for the environment).</li> <li>FII continued its ongoing program from previous years to position B.C. wood products as the first choice for environmentally friendly building materials through targeted marketing programs and responding to issues related to market barriers and market access</li> </ul>
<p>Create a subsidiary company in India and initiate a new market development program</p>	<p>Result: Achieved</p> <ul style="list-style-type: none"> <li>With industry support and funding support from Natural Resources Canada, FII established an office and subsidiary in India</li> <li>Reflecting the emerging market potential of India, efforts focused on supporting industry outreach, establishing a profile with Indian officials and wood buyers, and researching the most viable growth options for B.C. producers</li> </ul>
<p>Create critical mass in the development and delivery of market development programs by leveraging the expertise and financial resources of key players across the Canadian and international forest sectors</p>	<p>Result: Achieved</p> <ul style="list-style-type: none"> <li>As in past years, FII continued its strategy of leveraging industry and federal funding to generate greater value for the B.C. taxpayer</li> <li>In 2013/14, FII achieved a 2:1 funding ratio (every \$1 invested by FII in matched dollar programming attracted approximately \$2 dollars in funding by industry and the federal government)</li> </ul>
<p>Comply with the B.C. Government's requirement to be carbon neutral under the Greenhouse Gas Reduction Targets Act</p>	<p>Result: Achieved</p> <ul style="list-style-type: none"> <li>FII continued its improvement program in recycling practices, energy use and consumption, and purchasing practices to reduce its carbon use. In terms of total carbon consumption, however, some of the reductions achieved in the Vancouver office were offset by the creation of the FII India subsidiary. FII achieved carbon neutrality by purchasing 197 tonnes of carbon credits from the Pacific Carbon Trust.</li> </ul>

# Financial Report

## Management Discussion and Analysis

FII began the year expecting to spend a total of \$17.9 million based on:

- \$17.3 million in funding from the Ministry of International Trade which includes \$0.230 million restricted to capital purchases.
- \$0.6 million for India Market Development, provided by Natural Resources Canada.

Actual expenditures (including non-cash items), compared to the previous year, were as follows:

	2013/14 \$ MILLION	2012/13 <sup>10</sup> \$ MILLION
<b>Actual costs:</b>		
cash	18.124	18.092
amortization	<u>0.198</u>	<u>0.128</u>
TOTAL	18.322	18.220
Payments to other organizations based on annual Calls for Proposals	\$7.80 million, or 43 per cent of total expenditures	\$8.50 million, or 47 per cent of total expenditures

The actual cash expenditures of \$18.124 million are exclusive of \$0.238 million of capital assets purchased during the year. The majority of these capital assets are the final part of the leasehold improvements and office furniture to outfit FII's new shared office in India. This was offset by a cash contribution of \$0.600 million from Natural Resources Canada as part of its contribution towards the India market development effort.

FII's payments to funding recipients covered 34 per cent of the total cost of their projects, with the Government of Canada and other funders contributing 38 per cent and the funding recipients contributing 28 per cent.

Funding recipients ultimately spent \$7.8 million of FII funding, which was 6 per cent less than was committed to them at the beginning of the year. The 6 per cent under-spending is driven by cost savings in the Market Development Program projects as well as activities that had to be scaled back, delayed or cancelled due to market factors.

In total, FII's final net under-spending was \$0.393 million relative to the initial plan. \$0.104 million of this under-spend was attributable to funding recipients' post-year-end turn back of unspent advances. It should be noted that this turn back is considerably lower than in previous years. This is in part due to the incentive measures placed into the recipient agreements for the 2013/14 year.

<sup>10</sup> The 2012/13 chart is restated to be gross of other stakeholder recoveries in order to be consistent with 2013/14.

## Looking Ahead

### Core Review

At the time of writing this Service Plan Annual Report, FII is undergoing the B.C. Government's "core review" process, an examination of FII's mandate and governance. The following look-ahead assumes no significant change in the mandate.

### Budget Allocations

For 2014/15, FII anticipates receiving \$17.0 million in cash funding from the Province, \$0.6 million from Natural Resources Canada to offset costs of FII India, and \$0.2 million from other sources. On that basis, the total will be \$0.9 million less than in 2013/14. However, the Chicago-based Softwood Lumber Board continues to urge FII to assume a greater role in promoting wood frame construction in the United States, with incremental costs to be reimbursed by the Board. This could add several hundred thousand dollars per year to FII's revenue and expenditures.

As usual, about half of the available funding will be used to share the cost of activities proposed and delivered by not-for-profit organizations that responded to FII's most recent market development and Wood First calls for proposals. The budget allocation for such funding recipients will be \$8.3 million, up from the \$7.8 million of FII funding they spent in 2013/14. Other budget allocations will be:

- FII China: \$2.8 million, up \$100,000 from its actual expenditures last year (because of the lower value of the Canadian dollar relative to the Chinese Renminbi);
- FII India: \$1.8 million, which is \$268,000 greater than its actual expenditures last year;
- FII Vancouver's internal initiatives: \$2.9 million, down \$900,000 from last year;
- Corporate support: \$1.2 million, up slightly from last year's actual expenditures but lower than in prior years.

In past years, funding recipients have always delivered fewer projects than anticipated. Hence FII's share of the cost of their work has always been less than forecast in the overall budget allocation. To the extent this pattern is repeated in 2014/15, the budget for FII Vancouver's internal initiatives, including in the Wood First program, will be increased during the year.

### Operations

FII will continue to rely heavily on trade associations to develop and deliver market development programs based on country-specific strategies and quantified sales objectives for each product line and identified end-use. FII staff in Vancouver will continue to initiate research into new market possibilities (e.g., for coastal lumber in Vietnam and Thailand), while supporting the industry with a wide range of communications materials in established markets.

FII China staff will focus on building deeper and broader relationships with Chinese government officials at all levels, as well as with State-owned real estate development companies. Staff and contractors will provide "front-end" support for wood frame design and engineering, while the B.C. trade associations will continue to provide "downstream" support with technical training, assistance in changing building codes and fire codes, and on-site construction quality support.

Now that FII India's early establishment phase is complete, its employees and contractor(s) will reach out to Indian wood users, gathering detailed knowledge of the best commercial prospects, potential customers and distribution channels. They will actively encourage B.C. industry representatives, particularly the Coast Forest Products Association, to become established in Mumbai.

In carrying out its international market development planning and delivery, FII will continue to work in collaboration with the ministries and agencies of the B.C. Government to ensure that activities support the broader Government plans for market expansion in Asia and elsewhere.

### Financial

Year-over-year financial data for FII and its two subsidiary companies are summarized in the tables on the following page.

**Forestry Innovation Investment Ltd.**  
**Statement of Funding and Expenditures by Program**  
**Comparison to Budget and Prior year**

	<u>2010/11</u> <u>Actual</u>	<u>2011/12</u> <u>Actual</u>	<u>2012/13</u> <u>Actual</u>	<u>2013/14</u> <u>Actual</u>	<u>2013/14</u> <u>Budget</u>	<u>Variance</u> <u>from Budget</u> <small>(under) over</small>	<u>2014/15</u> <u>Budget</u>
<b>Funding</b>							
Receipts - Province of BC	\$ 18,723	\$ 20,520	\$ 17,208	\$ 17,306	\$ 17,300	\$ 6	\$ 17,000
Receipts - Wenchuan Reconstruction	4,772	117	-	-	-	-	-
Receipts - Government - Other	2,637	284	624	731	600	131	600
Other Revenue	-	800	1,042	678	200	478 <sup>(1)</sup>	200
<b>Total Funding</b>	<u>\$ 26,132</u>	<u>\$ 21,721</u>	<u>\$ 18,874</u>	<u>\$ 18,715</u>	<u>\$ 18,100</u>	<u>\$ 615</u>	<u>\$ 17,800</u>
<b>Expenditures</b>							
Market Outreach & Initiatives	14,513	15,474	13,463	12,901	12,400	501	11,800
China - Market Development	2,781	2,901	2,536	2,669	2,600	69	2,800
China - Wenchuan Reconstruction	4,690	880	-	-	-	-	-
China - Demonstration Projects	2,761	1,015	-	-	-	-	-
India - Market Development	-	-	872	1,457	1,600	(143)	1,800
Corporate Support	1,054	1,238	1,220	1,097	1,300	(203)	1,200
Amortization	247	193	128	198	200	(2)	200
<b>Total Expenditures</b>	<u>\$ 26,046</u>	<u>\$ 21,701</u>	<u>\$ 18,219</u>	<u>\$ 18,322</u>	<u>\$ 18,100</u>	<u>\$ 222</u>	<u>\$ 17,800</u>
<b>Excess of Funding Over Expenditures</b>	<u>\$ 86</u>	<u>\$ 20</u>	<u>\$ 655</u>	<u>\$ 393</u>	<u>\$ -</u>	<u>\$ 393</u>	<u>\$ -</u>

**FII Consulting (Shanghai) Co. Ltd.**  
**Statement of Funding and Expenditures**

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2013/14 Budget	Variance from Budget (under) over	Variance from Prior year (under) over
<b>Funding</b>							
Receipts - Forestry Innovation Investment	\$ 2,781	\$ 2,901	\$ 2,536	\$ 2,669	\$ 2,600	\$ 69 <sup>(2)</sup>	232
<b>Total Funding</b>	<u>\$ 2,781</u>	<u>\$ 2,901</u>	<u>\$ 2,536</u>	<u>\$ 2,669</u>	<u>\$ 2,600</u>	<u>\$ 69</u>	<u>\$ 232</u>
<b>Expenditures</b>							
China - Market Development	2,781	2,901	2,536	2,669	2,600	\$ 69 <sup>(2)</sup>	232
<b>Total Expenditures</b>	<u>\$ 2,781</u>	<u>\$ 2,901</u>	<u>\$ 2,536</u>	<u>\$ 2,669</u>	<u>\$ 2,600</u>	<u>\$ 69</u>	<u>\$ 232</u>
<b>Operating Income (loss)</b>	<u>\$ -</u>	<u>\$ -</u>					

**Forestry Innovation Consulting India Pvt. Ltd.**  
**Statement of Funding and Expenditures**

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2013/14 Budget	Variance from Budget (under) over	Variance from Prior year (under) over
<b>Funding</b>							
Receipts - Forestry Innovation Investment	\$ -	\$ -	\$ 318	\$ 857	\$ 1,000	\$ (143)	539
Receipts - Natural Resources Canada	\$ -	\$ -	\$ 554	\$ 600	\$ 600	\$ -	46
<b>Total Funding</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872</u>	<u>\$ 1,457</u>	<u>\$ 1,600</u>	<u>\$ (143)</u>	<u>\$ 585</u>
<b>Expenditures</b>							
China - Market Development	-	-	872	1,457	1,600	\$ (143)	585
<b>Total Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872</u>	<u>\$ 1,457</u>	<u>\$ 1,600</u>	<u>\$ (143)</u>	<u>\$ 585</u>
<b>Operating Income (loss)</b>	<u>\$ -</u>	<u>\$ -</u>					





**Forestry Innovation Investment**

## **Consolidated Financial Statements**

**Forestry Innovation Investment Ltd.**

March 31, 2014



# Statement of Management Responsibility

## Scope of Responsibility

Management has supervised preparation of the accompanying consolidated financial statements and related note disclosures and is responsible for their integrity and objectivity. The consolidated financial statements of Forestry Innovation Investment Ltd. (FII) have been prepared by management in accordance with the financial reporting provisions prescribed by the Province of British Columbia pursuant to Section 23.1 of the Budget Transparency and Accountability Act (see Note 2(a)).

We believe that these consolidated financial statements present fairly FII's financial position as at March 31, 2014 and the consolidated statement of operations, change in net assets, and cash flow for the year ending March 31, 2014 and that the other information contained in the Company's annual report is consistent with the consolidated financial statements as presented.

## Internal Controls

Management is responsible for the integrity of the financial statements and has established systems of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to facilitate the preparation of the financial statements in a timely manner. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. We believe our system of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the consolidated financial statements are prevented or detected in the normal course of business.

## Board of Directors and Audit Committee

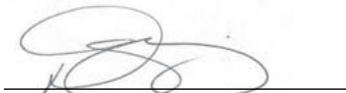
The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's discharge of its financial reporting responsibilities. An Audit Committee is appointed by the Board. The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee has reviewed these consolidated statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

## Independent Auditors

Grant Thornton has performed an independent audit of the consolidated financial statements of Forestry Innovation Investment Ltd. The Auditor's Report, as attached, outlines the scope of this independent audit and expresses an opinion on the financial statements of Forestry Innovation Investment Ltd.



Ken Baker  
Chief Executive Officer



Douglas Greig  
Vice President, Finance and Administration

Vancouver, British Columbia  
June 3, 2014



# Independent Auditor's Report

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To the Board of Directors of  
Forestry Innovation Investment Ltd.

To the Minister of International Trade,  
Province of British Columbia

We have audited the accompanying consolidated financial statements of Forestry Innovation Investment Ltd., which comprise the consolidated statement of financial position as at March 31, 2014, the consolidated statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements of Forestry Innovation Investment Ltd. for the year ended March 31, 2014, are prepared, in all material respects, in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

**Emphasis of matter**

Without modifying our opinion we draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Vancouver, Canada  
June 3, 2014

*Grant Thornton LLP*

Chartered Accountants

# Consolidated Statement of Financial Position

Year ended March 31, 2014  
(in thousands of dollars)

		2014	2013
	<u>Note</u>		
<b>Financial assets</b>			
Cash		\$ 2,532	\$ 885
Accounts receivable		248	651
Recipient advances	3	-	329
Due from Province of British Columbia		21	158
Due from other governments		<u>214</u>	<u>568</u>
Total financial assets		<u>3,015</u>	<u>2,591</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	4	1,198	1,335
Recipient payables	3	237	-
Deferred contributions	6	<u>665</u>	<u>562</u>
Total liabilities		<u>2,100</u>	<u>1,897</u>
Net financial assets		<u>915</u>	<u>694</u>
<b>Non-financial assets</b>			
Tangible capital assets	7	730	690
Prepaid expenses		<u>572</u>	<u>440</u>
Total non-financial assets		<u>1,302</u>	<u>1,130</u>
Accumulated surplus		<u>\$ 2,217</u>	<u>\$ 1,824</u>

Commitments (Note 8)

Approved by the Board



Director



Director

See accompanying notes to the consolidated financial statements.

# Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2014  
(in thousands of dollars)

		Budget	2014	2013
	<u>Note</u>			
Revenue	10			
Government contributions				
Provincial		\$ 17,300	\$ 17,306	\$ 17,208
Federal		600	731	624
Other revenue		-	678	1,042
		<u>17,900</u>	<u>18,715</u>	<u>18,874</u>
Expenses	10			
Funding recipient initiatives		8,900	9,140	9,578
Market initiatives and outreach				
FII Vancouver		3,500	3,761	3,885
FII China		2,600	2,708	2,536
FII India		1,600	1,532	873
Corporate services		1,300	1,181	1,348
		<u>17,900</u>	<u>18,322</u>	<u>18,220</u>
Annual surplus		-	393	654
Accumulated surplus, beginning of year		<u>1,824</u>	<u>1,824</u>	<u>1,170</u>
Accumulated surplus, end of year		<u>\$ 1,824</u>	<u>\$ 2,217</u>	<u>\$ 1,824</u>

See accompanying notes to the consolidated financial statements.

## Consolidated Statement of Changes in Net Financial Assets

Year ended March 31, 2014  
(in thousands of dollars)

Year ended March 31	Budget	2014	2013
Annual surplus	\$ -	\$ 393	\$ 654
Acquisition of tangible capital assets	(230)	(238)	(526)
Amortization of tangible capital assets	200	198	128
Acquisition of prepaid expenses	-	(132)	(80)
(Decrease) increase in net financial assets	(30)	221	176
Net financial assets, beginning of year	694	694	518
Net financial assets, end of year	\$ 664	\$ 915	\$ 694

See accompanying notes to the consolidated financial statements.

## Consolidated Statement of Cash Flows

Year ended March 31, 2014  
(in thousands of dollars)

	2014	2013
Cash provided by (used in):		
<b>Operating</b>		
Annual surplus	\$ 393	\$ 654
Items not involving cash		
Amortization of tangible capital assets	198	128
Amortization of deferred contributions	(127)	(186)
Change in accounts receivable	894	(1,214)
Change in recipient advances and payables	566	138
Change in accounts payable and accrued liabilities	(137)	3
Change in future employee benefit	-	(171)
Change in prepaid expenses	(132)	(80)
	<u>1,655</u>	<u>(728)</u>
<b>Capital</b>		
Acquisition of tangible capital assets	<u>(238)</u>	<u>(526)</u>
<b>Financing</b>		
Repayment to Province of British Columbia	-	(280)
Receipt of deferred contributions	<u>230</u>	<u>562</u>
	<u>230</u>	<u>282</u>
Net increase (decrease) in cash	1,647	(972)
Cash, beginning of year	<u>885</u>	<u>1,857</u>
Cash, end of year	<u>\$ 2,532</u>	<u>\$ 885</u>

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 1. General

Forestry Innovation Investment Ltd. (the “Company” or “FII Vancouver”) was incorporated on March 31, 2003 under the laws of the Province of British Columbia (the “Province”). The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. Her Majesty the Queen in Right of the Province of British Columbia, as represented by the Minister of International Trade, holds the shares issued. A board of directors governs the Company, and all directors are appointed by the Province. The Company’s principal activities are to fund forest industry associations and research institutions and to deliver market development and market initiatives and outreach programs.

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## 2. Summary of significant accounting policies

### (a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia which requires accounting policies which are consistent with Canadian public sector accounting standards except in regard to the accounting for restricted capital contributions.

Under Section 23.1 of the Budget Transparency and Accountability Act and its related regulations, the Company is required to recognize restricted capital contributions as a liability and recognize them into revenue on the same basis as the related amortization expense.

Under Canadian public sector accounting standards, those transfers with stipulations that have been met or that do not contain stipulations that create a liability, are fully recognized into revenue.

The impact of this difference on the consolidated financial statements of the Company would be a decrease in deferred capital contributions as at March 31, 2014, and increases in revenues and annual surplus for the year then ended.

### (b) Reporting entity and basis of consolidation

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting entity. The reporting entity is comprised of the Company consolidated with FII Consulting (Shanghai) Co., Ltd. (“FII China”), a wholly-owned subsidiary registered under the laws of the People’s Republic of China, and Forestry Innovation Consulting India Pvt. Ltd. (“FII India”), a wholly-owned subsidiary registered under the laws of the Republic of India.

FII China is based in Shanghai, China, and FII India is based in Mumbai, India with both subsidiaries delivering market development programs on behalf of the Company. The subsidiaries are consolidated on a line-by-line basis after inter-organizational transactions and balances between these entities have been eliminated.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

### (c) Revenue recognition

Unrestricted contributions, donations and grants are recorded as revenue when receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Restricted contributions include amounts received from the Province and the Canadian Federal Government for specific purposes. Restricted contributions are recorded as deferred contributions when received or receivable. The deferred contribution and associated revenue are recognized based upon the nature of the restriction, as follows:

#### (i) *Restricted capital contributions*

Capital contributions for the purpose of acquiring or developing a depreciable tangible capital asset are recorded and referred to as deferred capital contributions. Deferred capital contributions are reduced and the associated revenue recognized at the same rate and in the same fiscal period that amortization is recognized in respect of acquired depreciable tangible capital asset used to provide services. To date, there has been \$115 in restricted capital funding for asset purchases that has been recorded as revenue with respect to restricted capital contributions.

#### (ii) *Other restricted contributions*

Deferred contributions are reduced and the associated revenue recognized in the period during which the stipulation or restriction on the contribution have been met.

Investment income includes interest recorded on an accrual basis.

### (d) Program expenses

Program expenses include amounts transferred to recipient organizations based on recipient funding contracts to carry out specific program activities. Amounts transferred are recognized as expenses in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met by the recipient, and reasonable estimates of the amounts can be made.

### (e) Pension plans

The Company and its employees contribute to the Public Service Pension Plan, which is a multi-employer jointly trustee plan. The plan is a defined benefit plan, providing pension on retirement based on the member's age at retirement, length of service and highest earnings averaged over five years. As the assets and liabilities of the plan are not segregated by employer, the plan is accounted for as a defined contribution plan and any Company contributions to the plan are expensed as incurred.

### (f) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid securities with original terms to maturity of three months or less from the date of acquisition.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

### (g) Financial instruments

Financial instruments consist of cash, accounts receivable, recipient advances, amounts due from the Province, amounts due from other governments, accounts payable and accrued liabilities, and recipient payables.

The Company measures its financial instruments at cost or amortized cost.

For financial instruments measured at cost or amortized cost, transaction costs are added to the cost of the financial instruments.

Unrealized gains and losses from changes in the fair value of financial instruments, if any, are recognized in the consolidated statement of remeasurement gains and losses until such time that the related financial instrument is derecognized due to disposal or impairment. At the time of derecognition, the related realized gains and losses are recognized in the consolidated statement of operations and accumulated surplus and the related balances are reversed from the consolidated statement of remeasurement gains and losses.

Interest and dividends attributable to financial instruments are reported in the consolidated statement of operations.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the consolidated statement of operations.

There are no financial instruments measured at fair value; therefore, the consolidated financial statements do not include a consolidated statement of remeasurement gains and losses.

### (h) Non-financial assets

#### (i) *Tangible capital assets*

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development or betterment of the asset. Cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

<u>Asset</u>	<u>Useful life</u>
Computer equipment	3 years
Computer software	2 years
Furniture and equipment	5 years
Leasehold improvements	lesser of the lease term and its useful life
Tradeshow booths	3 years

Assets under construction are not amortized until the asset is available for productive use.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

### (h) Non-financial assets (continued)

#### (ii) Contributions of tangible capital assets

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt.

#### (iii) Interest capitalization

The Company does not capitalize interest costs associated with the acquisition or construction of tangible capital assets.

#### (iv) Intangible assets

Intangible assets are not recognized in these consolidated financial statements.

### (i) Foreign currency translation

These consolidated financial statements are stated in Canadian dollars. The Company's foreign operations, conducted through FII China and FII India, are considered financially interdependent with the Company, and are translated from Chinese Renminbi (RMB) and Indian Rupee (INR) using the temporal method of translation. Accordingly, monetary assets and liabilities are translated at the spot exchange rates in effect at the date of the statement of financial position; non-monetary items are translated at historical exchange rates in effect on the dates of the transactions. Revenue and expense items are translated at monthly average exchange rates in effect during the month in which the transaction occurred, except for amortization which is translated at the historical exchange rate of the corresponding non-monetary item. Realized exchange gains and losses are included in the consolidated statement of operations.

### (j) Budget

Budget data presented in these consolidated financial statements are based on the Company's Service Plans. The budget was approved by the Board of Directors on April 22, 2013.

### (k) Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the allowance for recipient advances and useful lives of property and equipment. Actual results could differ from those estimates.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 2. Summary of significant accounting policies (continued)

### (l) Segment disclosures

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information. The Company has provided definitions of segments used by the Company as well as presented financial information of the segments in Note 10.

### (m) Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform with the current year's presentation.

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## 3. Recipient advances and payables

Recipient funding contracts stipulate that unspent advances are repaid to the Company. Historically, unspent advances have been repaid to the Company prior to the end of the first quarter of the new fiscal year after final reconciliation reports have been submitted and final audits have been completed.

Beginning in fiscal 2013/2014, the Company changed the policy on recipient funding withholding a percentage of earnable administration costs from their interim advances. Recipients would qualify for this final funding amount withheld based on meeting eligible reporting criteria in the recipient reporting process.

As at March 31, 2014, the Company has identified \$237 as payable to the recipient organizations (2013: \$329 as receivable from the recipient organizations).

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## 4. Accounts payable and accrued liabilities

	<u>2014</u>	<u>2013</u>
Trade payables	\$ 329	\$ 570
Accrued liabilities	<u>869</u>	<u>765</u>
	<u>\$ 1,198</u>	<u>\$ 1,335</u>

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# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 5. Pension plans

The Company and its employees contribute to the Public Service Pension Plan, which is a multi-employer jointly trustee plan. The plan is a defined benefit plan, providing pension on retirement based on the member's age of retirement, length of service and highest earnings averaged over five years. The board of trustees of the plan represents plan members and employers and is responsible for the management of the plan including investment of the assets and administration of the plan.

The most recent actuarial valuation for the Public Service Pension Plan as at March 31, 2011 indicated a \$226 million funding deficit for basic pension benefits. The next valuation will be as at March 31, 2014, with results available in 2015.

The plan is accounted for as a defined contribution plan. During the year ended March 31, 2014, the Company paid \$28 (2013: \$Nil) for employer contributions to the plan.

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## 6. Deferred contributions

Deferred contributions consist of contributions received from the Province for tangible capital assets and advances on federal contracts with goods and services still outstanding. Deferred contributions are comprised of the following:

	Provincial	Government of Canada	<b>2014</b>	2013
Balance, beginning of year	\$ 550	\$ 12	<b>\$ 562</b>	\$ 186
Contributions received during the year	230	-	<b>230</b>	562
Amounts amortized to revenue	<u>(115)</u>	<u>(12)</u>	<b><u>(127)</u></b>	<u>(186)</u>
Balance, end of year	<u>\$ 665</u>	<u>\$ -</u>	<b><u>\$ 665</u></b>	<u>\$ 562</u>

Included in Provincial deferred contributions is \$20 (2013: \$Nil) that is unspent.

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## Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

### 7. Tangible capital assets

#### (a) Assets in use

Cost	2013	Additions	Disposals	2014
Computer equipment	\$ 660	\$ 45	\$ (1)	\$ 704
Computer software	61	2	-	63
Furniture and equipment	273	49	-	322
Leasehold improvements	657	101	-	758
Tradeshow booths	481	41	-	522
	<u>\$ 2,132</u>	<u>\$ 238</u>	<u>\$ (1)</u>	<u>\$ 2,369</u>

Accumulated amortization	2013	Disposals	Amortization	2014
Computer equipment	\$ 515	\$ (1)	\$ 64	\$ 578
Computer software	57	-	6	63
Furniture and equipment	225	-	22	247
Leasehold improvements	220	-	74	294
Tradeshow booths	425	-	32	457
	<u>\$ 1,442</u>	<u>\$ (1)</u>	<u>\$ 198</u>	<u>\$ 1,639</u>

Net book value	2013	2014
Computer equipment	\$ 145	\$ 126
Computer software	4	-
Furniture and equipment	48	75
Leasehold improvements	437	464
Tradeshow booths	56	65
	<u>\$ 690</u>	<u>\$ 730</u>

#### (b) Assets under construction

As at March 31, 2014, there were tangible capital assets under construction or development of \$Nil (2013: \$428) resulting from the setup of the new FII India subsidiary.

#### (c) Assets disclosed at nominal values

The cost of tangible capital assets includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003, for one dollar. These assets are now fully amortized.

## Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

### 8. Commitments

(a) The Company has lease commitments for its premises it occupies.

2015	\$	1,189
2016		813
2017		95
2018		-
2019		-
Thereafter		-
	\$	<u>2,097</u>

(b) The Company also has an obligation to pay \$447 (2013: \$434) for contracts entered into, and not yet completed at March 31, 2014.

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### 9. Financial instruments risk management

The Company has exposure to the following risks from its use of financial instruments:

#### *Credit risk*

Credit risk is the risk that the Company's counterparties default or become insolvent.

The Company is potentially exposed to credit risk through cash, accounts receivable, recipient advances, amounts due from the Province, and amounts due from other governments. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Accounts receivable consist mainly of federal cost share agreements which are monitored on a regular basis. Recipient advances are made three times through the year to reputable recipients, and Company staff monitors the status of such advances on a continuing basis. Amounts due from the Province and amounts due from other governments consist of reimbursement claims. It is the Company's opinion that its exposure to credit risk is subject to normal industry risks and is considered minimal.

As at March 31, 2014, accounts receivable, amounts due from the Province, and amounts due from other governments are comprised of:

	<u>Under 90 days</u>	<u>Over 90 days</u>	<u>Total</u>
Accounts receivable	\$ 248	\$ -	\$ 248
Due from Province of British Columbia	21	-	21
Due from other governments	214	-	214
Allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>-</u>
	\$ 483	\$ -	\$ 483

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 9. Financial instruments risk management (continued)

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company manages its exposure to liquidity risk by maintaining sufficient cash balances throughout the year to meet its short-term obligations. It is the Company's opinion that its exposure to liquidity risk is subject to normal industry risks and is considered minimal.

### *Market risk*

Market risk is the risk that fluctuations in market prices will affect the Company's net financial assets. Market risk comprises three types of risk:

#### *Currency risk and foreign denominated cash*

Currency risk is the risk that fluctuations in foreign currencies will affect the Company's net financial assets denominated in foreign currencies.

The Company is subject to foreign exchange risk through its program payables and program advances and a portion of the Company's program and tradeshow costs, which are denominated in Chinese Renminbi, Indian Rupee, United States Dollars and other foreign currencies. The Company manages its exposure to currency risk by monitoring its assets and liabilities denominated in foreign currencies and purchasing foreign denominated currency to pay upcoming commitments when the market conditions are favourable. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk.

As at March 31, 2014 foreign denominated cash included \$305 (2013: \$214) denominated in RMB, \$208 (2013: \$187) denominated in INR, and \$940 (2013: \$3) denominated in USD.

#### *Interest rate risk*

Interest rate risk is the risk that fluctuations in interest rates will affect the Company's net financial assets that bear interest at variable rates.

The Company manages its exposure to interest rate risk by investing in interest bearing cash accounts.

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# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 10. Segmented information

Segmented information has been identified based upon programs provided by the Company. Company programs and their activities are reported by functional area in the body of the consolidated financial statements. Programs that have been separately disclosed in the segmented information, along with the services they provide, are as follows:

### (a) Funding Recipient Initiatives

Uses project funding delivered through an annual “Call for Proposals” in partnership with the Government of Canada to fund forest industry associations and research institutions, to:

- maintain and create opportunities for B.C. wood products in existing and emerging markets;
- ensure that customers, consumers, designers, builders, developers and architects know about B.C. wood products and the many positive features they bring to wood-frame construction and interior finishing;
- support the development of innovative new forest products; and
- provide interested parties around the world with information on the properties and qualities of B.C.’s forest products and the B.C. companies that supply them.

### (b) Market Initiatives and Outreach Program

#### (i) FII Vancouver Initiatives

Internally directs delivered programs that:

- identify potential opportunities for B.C. forest products through market research and develop market access strategies;
- ensure B.C. forest products have access to markets free from regulatory and other barriers through initiatives and research; and
- provide customers and foreign regulators with facts about the environmental merits of B.C. forest products, including the sustainable forest management regime that underlies their production.

#### (ii) FII China Initiatives

FII China has a mandate to increase the volume and value of B.C. lumber exports to China by expanding the share of wood frame construction in China’s building sector. FII China focuses on the following activities:

- Expanding and strengthening relationships with central and regional government agencies responsible for building and construction in China, and with large state-owned developers, emphasizing the pursuit of strategic and joint initiatives;
- Building partnerships with established market leaders in China’s development sector and supporting these companies in areas of concept development, planning and design, code application, and resource integration; and
- Working closely with Canadian forest industry trade association staff to expand China’s technical capacity to deploy wood frame construction.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

## 10. Segmented information (continued)

### (b) Market Initiatives and Outreach Program (continued)

#### (iii) FII India Initiatives

FII India has a mandate to establish a local presence in India for B.C. and Canadian forest products companies; develop working relationships with government officials, regulatory agencies, and the wood user community; and position B.C. and Canadian forest products for future growth. The operation focuses on early-market (pre-commercial) development activities, including:

- Supporting development of the market for B.C. and Canadian forest products through market research;
- Promoting B.C. and Canadian wood species in various end-uses;
- Educating the market place on B.C. and Canadian wood species and their proper use;
- Providing intermediation with Indian regulatory authorities; and
- Providing direct support for B.C. companies entering the India market

### (c) Corporate services

Corporate services performs the following activities

- Ensures financial reporting to government standards;
- Provides Human Resource, IT and office services to meet organizational needs;
- Oversees budget and planning controls in alignment with strategic objectives; and
- Provides corporate communication and analytical services to meet internal and external needs.

## Notes to the Consolidated Financial Statements

Year ended March 31, 2014  
(in thousands of dollars)

### 10. Segmented information (continued)

	Recipient Funding Initiatives	Market Initiatives and Outreach			Corporate Services	2014 Total	2013 Total
		FII Vancouver	FII China	FII India			
<b>Revenues</b>							
Government contributions							
Provincial	\$ 8,900	\$ 3,500	\$ 2,602	\$ 1,075	\$ 1,229	\$ 17,306	\$ 17,208
Federal	47	72	12	600	-	731	624
Other revenue	-	640	-	-	-	640	1,004
Investment income	-	-	-	-	38	38	38
<b>Total revenues</b>	<b>8,947</b>	<b>4,212</b>	<b>2,614</b>	<b>1,675</b>	<b>1,267</b>	<b>18,715</b>	<b>18,874</b>
<b>Expenses</b>							
Amortization	-	-	39	75	84	198	128
Auditing	72	-	33	13	38	156	125
Grants	799	-	-	55	-	854	751
Office costs	-	261	432	300	144	1,137	748
Professional services	123	1,783	758	341	214	3,219	2,067
Program costs	7,846	503	150	141	(8)	8,632	10,560
Salaries, wages and benefits	300	1,089	995	343	631	3,358	3,161
Trade missions	-	9	26	42	-	77	18
Travel and business costs	-	116	275	222	78	691	662
<b>Total expenses</b>	<b>9,140</b>	<b>3,761</b>	<b>2,708</b>	<b>1,532</b>	<b>1,181</b>	<b>18,322</b>	<b>18,220</b>
<b>Annual (deficit) surplus</b>	<b>\$ (193)</b>	<b>\$ 451</b>	<b>\$ (94)</b>	<b>\$ 143</b>	<b>\$ 86</b>	<b>\$ 393</b>	<b>\$ 654</b>



## Contact Us

Further information on Forestry Innovation Investment is available at [www.bcfii.ca](http://www.bcfii.ca). A Report to Stakeholders published in November 2013 highlights accomplishments in major markets around the world. FII's current Service Plan, as well as previous Service Plans and Annual Reports are available at [www.bcfii.ca](http://www.bcfii.ca).

Comprehensive information about B.C.'s sustainable forest management practices and products is available at [www.naturallywood.com](http://www.naturallywood.com), with links to many forest-product companies and trade associations.

### Head Office

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**Forestry Innovation Investment**

