

Forestry Innovation Investment Ltd.

2016/17 ANNUAL SERVICE PLAN REPORT



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Board Chair's Accountability Statement



I am pleased to submit Forestry Innovation Investment's *2016/17 Annual Service Plan Report*. The *2016/17 Annual Service Plan Report* was prepared under the Board's direction and in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles.

The *Forestry Innovation Investment 2016/2017 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2016/17 - 2018/19 Service Plan*. I am accountable for those results as reported.

A handwritten signature in blue ink, appearing to read 'Tim Sheldon', with a horizontal line extending from the end of the signature.

Tim Sheldon
Board Chair

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Chair/CEO Report Letter

The 2016/17 fiscal year marked the second year for Forestry Innovation Investment Ltd. (FII) under the Government's [Taxpayer Accountability Principles](#) that act to strengthen accountability, ensure the appropriate management of public funds and revitalize the relationship between government and public sector organizations. During the year, FII's operations, including its goals, strategies, measures and targets, fully aligned with the [Taxpayer Accountability Principles](#) by emphasizing efficiency, accountability and integrity in the delivery of the organization's programs, and in managing relationships with stakeholders inside and outside the provincial government. FII's actions during the year also aligned with the Government's strategic direction as outlined in the [2016/17 Mandate Letter](#) from the Ministry of International Trade and Responsible for Asia Pacific Strategy and Multiculturalism (refer to Appendix C for a summary of FII's response to the strategic priorities set out in the *Mandate Letter*).

During the year, FII worked with the Ministry of International Trade and Responsible for Asia Pacific Strategy and Multiculturalism (MIT) under a *Strategic Engagement Plan* that establishes a framework for structured executive-level communication between the Ministry and FII. The plan, which sets out communications protocols and reporting mechanisms, ensured that a rigorous and ongoing reporting cycle was maintained between FII and MIT. A key element of the 2016/17 plan included holding quarterly meetings between the Minister and Deputy Minister of International Trade, and the FII Board Chair and CEO. These dialogues help ensure that FII and MIT remain aligned with respect to the Company's progress in meeting obligations as set out by Government.

Several organizational changes took place during the year. In April 2016, FII's interim CEO was confirmed in the position and, in July, a new vice president for International Marketing was recruited from the B.C. forest industry. FII also added two new members to the Board of Directors: the Deputy Minister of International Trade, and an executive from private industry who brings additional expertise and fresh perspectives to the Board. In anticipation of Board expansion, FII completed an update to its Board orientation package early in the year. The updated material, and a related series of briefings by staff, were designed to ensure that the new Board appointees are fully aware of their responsibilities as directors of the Company, and that each is familiar with best practices in Crown governance.

We are pleased to report that FII concluded the year having met all of its obligations under the [Taxpayer Accountability Principles](#). FII's performance under the [Taxpayer Accountability Principles](#) is reviewed in the Report on Performance section of this Annual Report. Additional information on FII's corporate governance, including links to Board composition and status of concurrence with best practices guidelines, is included in Appendix B.



Tim Sheldon
Chair



Michael Loseth
Chief Executive Officer

Purpose of the Organization

FII is the Government of British Columbia's market development agency for forest products. FII is mandated to:

- Position B.C. 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 forest products and forest management to the global marketplace.
- Help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

FII works with the forest industry, the Government of Canada, provincial ministries, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value to taxpayers and stakeholders, and reflecting the Province's *Taxpayer Accountability Principles*, FII uses a collaborative model for program delivery. Under this model, FII works with the B.C. forest industry and the federal government to grow exports to existing markets, such as China and Japan, while promoting the use of B.C. products in high potential, emerging markets, including India. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations, including the federal government. Through this cooperative model, FII programming is working to strengthen the forest economy and create jobs in B.C.

FII maintains two operating and one non-operating subsidiaries:

Forestry Innovation Investment Consulting (Shanghai) Co. Ltd. (FII China) (wholly owned by Forestry Innovation Investment Ltd.). FII China focuses on growing the market for B.C. wood products in China.

Forestry Innovation Consulting India Private Limited (FII India) (wholly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.). FII India works to develop the Indian market for B.C. forest products.

0939031B.C. Ltd. (wholly owned by Forestry Innovation Investment Ltd.). A non-operating company that serves as a second shareholder of FII India.

More information on FII's subsidiary companies is provided in Appendix A.

Strategic Direction and Context

FII works 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. In pursuing its market development mandate, FII focused on three specific operational priorities during the year:

- Retaining a strong focus on building markets in Asia through:
 - ensuring programs reflect China's changing economic realities and continuing to advance the use of B.C. wood in construction and other applications;

- aligning Forestry Innovation Investment's market development activities with Government's three-year market strategy for India; and
- working with the forest industry in identifying and advancing opportunities in Southeast Asia.
- Implementing the five-year strategic plan FII developed in 2015/16, and the organization's updated Service Plan performance measures.
- Collaborating with the Ministry of Forests, Lands and Natural Resource Operations (MFLNRO) and the Ministry of International Trade to jointly develop and implement an action plan for the value added wood products sector and to align FII's activities with those of Government.

(Refer to Appendix C for a more detailed review of the 2016/2017 Mandate Letter priority actions and FII activities).

During the year, FII focused on delivering against the new strategic plan for the organization. FII also collaborated with MFLNRO to deliver on its goal of creating a diverse, globally competitive forest industry. As part of this effort, FII worked with MFLNRO and MIT to complete a needs assessment for the value-added sector as a precursor to launching a new exporters pilot program. Also on the policy and planning front, FII completed updates of three key market development strategies: China, India and the U.S.

FII continues to align its activities with those of MIT in global markets, and with MFLNRO. By doing so, FII ensures efficient use of resources and maximum value for B.C. taxpayers. Cost-effectiveness in operations is further enhanced by a continued emphasis on a joint delivery model and extensive cost sharing of activities with industry and the federal government. By leveraging these partnerships, FII is able to lead a comprehensive effort to expand B.C.'s exports in major markets in Asia and North America.

Global markets for forest products were influenced by a wide variety of factors in 2016/17. Among the more significant influences were the low value of the Canadian dollar, increased competition in our key Asian markets, a rebounding U.S. housing market, and the expiry of the Canada-U.S. Softwood Lumber Agreement (SLA) which created a period of duty-free access for softwood lumber into the U.S. market.

In the U.S., the economy demonstrated increasing strength in 2016/17, with housing starts picking up momentum as the year closed. This increased activity in the housing sector combined with the duty-free period that followed expiry of the SLA to generate higher wood product sales to the U.S. on both a volume and value basis. While the economy in China has recovered from the steep downturn that began in early 2015, B.C.'s exports of lumber continue to be impacted by strong competition from Russia, backed by a weakened currency. On the positive side for B.C. exporters, prices were holding in the market, with the value per cubic metre of shipments rising steadily in the second half of the year. Among smaller markets, South Korea continues to show promise with the demand for wood housing growing and where B.C. held its position during the year in the face of rising prices.

In the midst of considerable market volatility during the year, B.C. lumber producers saw the benefits from market diversification efforts as lower shipments to China were offset by recoveries in the U.S., Japan and South Korea, and growth in secondary markets such as the Philippines. The year ended with the total volume of B.C. exports of lumber up a healthy 11.6 per cent year-over-year and the total value up almost 20 per cent. Here in North America, a new generation of wood technologies focused on taller and larger wood buildings, continues to gain ground. Of particular note was the completion

of the wood structure for the 18-storey Brock Commons Tall Wood House student residence at the University of British Columbia. This building, constructed with support from both the Province of B.C. and the federal government, is now one of the tallest mass timber structures in the world. The Brock Commons project has become a showcase for B.C.'s leadership in the area of tall wood buildings and is helping to pave the way for the increased use of wood in high potential residential and non-residential construction markets throughout North America. Advancing wood use in these segments is a key goal of FII's domestic programming, and under the reThink Wood communications program delivered by FII on behalf of the Softwood Lumber Board.

Report on Performance

Consistent with the *Taxpayer Accountability Principles*, FII's staff and Board worked with MIT early in the year to update the *Taxpayer Accountability Principles Strategic Engagement Plan* for FII. The 2016/17 Plan provided a framework for FII and the Ministry to work together effectively, share information and demonstrate accountability. FII tracks the organization's performance against the *Taxpayer Accountability Principles* through a *Taxpayer Accountabilities Evaluation framework*. During the year, FII's progress under the evaluation plan was reported to the Ministry of International Trade and Responsible for Asia Pacific Strategy and Multiculturalism by the FII Chair and CEO at quarterly meetings. A report on Evaluation Plan performance is included as a standing item at each meeting of the FII Board. In 2016/17, FII met all accountabilities set out under the plan. A copy of the FII *Taxpayer Accountabilities Evaluation Plan* final report for 2016/17 is available on the FII website.

During the year, FII met all of its objectives as set out in the 2016/17 Mandate Letter from the Ministry of International Trade and Responsible for Asia Pacific Strategy and Multiculturalism. This included building markets for B.C. forest products in Asia; updating performance metrics for the 2017/18 Service Plan; implementing a new five-year strategic plan; and collaborating with MFLNRO to align activities. A description of FII's specific responses to Mandate Letter direction is included as Appendix C.

Goals, Strategies, Measures and Targets

FII's investments in 2016/17 focused on advancing forest sector innovation and market diversification. FII worked with the forest industry, its trade associations, research institutions and other levels of government to pursue opportunities related to advancements in products, designs and engineering technologies. These activities, combined with accelerated efforts to penetrate new markets such as India, have the potential to change the paradigm for the forest sector, generating new wealth, more skilled jobs and greater stability for communities and workers.

The following describes the specific goals, strategies and performance targets pursued by FII during 2016/17. More detailed descriptions of programs, activities and the FII business model can be found at www.bcfii.ca and in the Company's annual [Report to Stakeholders](#)¹.

¹ Reflecting FII's commitment to continual improvement in performance measurement, FII introduced two new performance metrics in its 2016/17 Service Plan, while adjusting others. A comprehensive summary of changes to goals and performance measures between the 2015/16 and 2016/17 plans are available in the Appendix C of the [2016/17 Service Plan](#).

Goal 1: Forest products are viewed as an environmentally friendly, preferred material, and B.C. is viewed as a reliable global 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. The strategies under Goal 1 create a solid foundation for answering the questions “Why wood?”, and “Why wood from B.C.?” – upon which many of FII’s market development investments and activities are based.

Goal 1 focuses on taking advantage of two significant trends in the marketplace – the emerging recognition that wood provides an opportunity to lower the carbon footprint of the built environment, and increasing demands from consumers for forest products that are produced in an environmentally responsible, fully sustainable manner. As customers are factoring environmental parameters into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material that stores carbon; 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 support of this goal are designed to build on the growing awareness of the environmental benefits of wood products, and to position B.C. as a reliable supplier of quality forest products and a global leader in sustainable forest management. This dual positioning helps strengthen awareness of B.C. forest products in major markets supporting premium product positioning, enhanced access to new segments and greater market share.

Strategies

FII and its funding recipients pursued Goal 1 by:

- Proactively creating and disseminating timely and factual information regarding B.C. forest products and forest practices;
- Championing 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 regarding product and building innovations, and reducing environmental impacts; and
- Monitoring and advocating in international markets for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Performance Measure 1.1ⁱ: Customer Perceptions of B.C. Forest Products.

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Percent of customers who perceive that forest products from B.C. are a good choice for the environment.	98% ⁱⁱ	N/A	96%	N/A	N/A	90%	N/A

Data Source: Leger -The Research Intelligence Group. *Analysis of Market Acceptance Issues*, March 2016.

ⁱ⁾ Surveys are conducted biennially.

ⁱⁱ⁾ Reported as 90% in the 2015/16 Service Plan, but subsequently corrected to 98%.

Discussion

This measure provides an indication of the effectiveness of FII's international advocacy and communications initiatives in influencing customer perceptions of B.C. and its forest management practices. Performance data was gathered through a biennial survey of international customers (e.g., large institutional pulp and paper buyers, wood importers and distributors, and carbon market stakeholders) conducted by an independent research firm. The next survey will be conducted in 2017/18.

Performance Measure 1.2ⁱ: Potential Prospects Connecting with B.C. Manufacturers

Performance Measure	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Number of potential prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII.	10,000 (baseline)	13,027	11,000	12,000

Data Source: FII.

ⁱ⁾ Performance measure 1.2 was a new metric in 2016/17.

Discussion

Performance Measure 1.2 is a new measure that links FII's outreach and communications activities to the objective of increasing sales of B.C. forest products. FII's [naturally:wood](#) information resource, works to promote B.C. forest products and suppliers through the Supplier Directory. The performance metric tracks the number of visitor searches on the naturallywood.com Supplier Directory and the number of those visitors that link through to a supplier email address or website. Collecting data on connections made to suppliers tracks the effectiveness of FII's online product and supplier sourcing tool—the Supplier Directory—in increasing awareness of, and interest in, B.C.'s forest products by advancing connections with B.C. companies for potential commercial opportunities.

From April 1, 2016 to March 31, 2017, a total of 13,027 supplier interactions were made, which exceeded the target by over 3,000 connections.

Goal 2: Returns from B.C.'s conventional and emerging forest products are optimized in markets offering high potential.

Goal 2 drives FII's efforts to assist the B.C. forest industry in developing and diversifying markets and to optimize returns by achieving a balance in the products, species, and grades sold to given markets. Within this goal there is a particular focus on Asia, where markets have distinctly different profiles ranging from a high volume/low grade mix in China, to a medium volume/higher grade mix in Japan. The efforts of FII and its funding recipients build on the strategies, and the science and reputational foundation, developed under Goal 1.

Optimization of the global market development strategy includes creating or expanding new market segments in traditional regions (e.g., non-residential and multi-family/mid-rise construction in the US), as well as fostering demand in segments not currently using high volumes of B.C. forest products (e.g., the multi-family and non-residential construction sector in China, and the domestically focused manufacturing sector in India).

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from historically heavy dependence on the US single-family housing sector. Programs in this area also focus on achieving a long-term balance between existing and emerging markets and between traditional and innovative new products. During 2016/17, the strategies under this goal included a mix of activities delivered by third parties and by FII².

Strategies

FII and its funding recipients pursued Goal 2 by:

- Expanding opportunities for B.C. forest products in key Asian markets, with an emphasis on China, Japan and South Korea.
- Opening markets for B.C. products in emerging regions offering strong growth potential, particularly India and Southeast Asia.
- Growing the use of wood in North America's emerging market segments, with an emphasis on the non-residential and multi-family/multi-storey markets, and value-added products from British Columbia.
- Engaging with industry and foreign government agencies to eliminate barriers to access in foreign markets.
- Sharing the cost of market development activities created and delivered by trade associations, based on priorities outlined in FII's Strategic Plan and annual investment strategies.

² FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

Performance Measure 2.1ⁱ: Average Value Generated by Lumber Sales to China³⁴

Performance Measure	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Average value (CAD, millions) per cubic metre generated by softwood lumber sales to China ⁱⁱ .	192 (baseline)	174	196	200

Data Source: FII.

ⁱ⁾ Performance measure 2.1 was a new metric in 2016/17.

ⁱⁱ⁾ Average per cubic metre value of exports is based on Statistics Canada export data compiled by BC Stats.

Discussion

FII is interested in tracking the extent to which the B.C. forest industry is successful in diversifying markets, with a particular focus on Asia. Currently, FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort to position B.C. as the leading exporter of high-quality softwood lumber to China.

Average value per cubic meter in 2016 was \$174. Though average values rose in the second half of the year, the value for the year is below target. This reflects a lower price in China for B.C. lumber in the face of increased competition from Russian and European suppliers, and a continued downturn in China that extended into early 2016. In addition, B.C. shipments to China were impacted by higher prices and stronger demand in the U.S., which led to some B.C. lumber supply being redirected from China into the U.S. market during the year.

Performance Measure 2.2ⁱ: Product Trials in India

Performance Measure	2015/16 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Total number of product trials of B.C. species undertaken in India.	6	8	12	15	18	24

Data Source: FII.

ⁱ⁾ Performance measure 2.2 was a new metric in 2015/16.

Discussion

India is a new market for B.C. wood product companies, and market development efforts remain in the pre-commercial phase. However, product trials are emerging as an effective means for FII to encourage Indian manufacturers to convert existing or new production to using B.C. wood and efforts in this area accelerated in 2016/17. FII's "Try Canadian Wood" program provides qualified Indian manufacturers with small test volumes of B.C. wood as well as technical support for trying B.C. wood in new or existing product lines. Such trials have resulted in a range of furniture and interior finishing products being produced on a test basis using B.C. wood species. The outputs of these trials were

³ Performance metrics are tracked for China and India (see performance measure 2.2) reflecting FII's direct operations and program delivery in those two markets. In Asia, in addition to China and India, FII also tracks and reports out on data and trends in all other key markets, including Japan and South Korea.

⁴ The ability to achieve performance measures 2.1 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures linked to FII's broader goals and targets are set for each project. For more details, please refer to [FII's Performance Management Framework](#).

promoted at tradeshows and featured at the FII India showroom in Mumbai. FII's success in expanding the number of product trials across India is key to opening the market for B.C. wood species and helping B.C. firms advance commercial sales to India.

With additional resources available in 2016/17, the market development effort was able to expand its operations into the north and south of India during the year. As a result, product trials activity exceeded expectations with a total of 15 trials completed in 2016/17. A number of other trials began later in the year and will be completed in early 2017/18.

Performance Measure 2.3¹: Sales in the U.S. Non-Residential and Multi-Storey/Multi-Family Segment⁵

Performance Measure	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Total sales (USD, millions) of wood attributable to program interventions – U.S. non-residential and multi-storey/multi-family residential construction markets.	103 (baseline)	128	126	144

Data Source: FII.

¹) Performance measure 2.3 was a new metric in 2016/17.

Discussion

Most single-family housing in North America uses wood frame construction as the primary building method. However, wood has a smaller share of non-residential structures and of multi-storey, multi-family residences. The forest industry in B.C., the rest of Canada and in the U.S. have a strong interest in seeing wood products secure a much higher market penetration in this segment. To this end, FII supports the U.S.-based WoodWorks program to deliver activities that assist architects, builders and developers to incorporate more wood into their projects, as well as convert their projects to wood from other materials.

The target for performance measure 2.3 was exceeded in 2016/17 due to a concerted effort by WoodWorks to deliver their assistance and technical support to the building and design community across a range of building types (i.e., multi-story/multi-family; non-residential, taller buildings), and supported by stronger than forecast construction activity in the U.S. This diversification strategy is helping to expand the influence of the program across the construction sector while protecting suppliers against market fluctuations in any one particular segment of the building sector. In addition to increased results in midrise residential projects, value gains were secured in business, restaurant, senior centre, and mercantile projects.

Goal 3: B.C. is a leader in using innovative forest products and building systems.

This goal focuses on generating greater added value in the forest economy. Long-term sustainability of the forest economy requires the active maintenance, creation and diversification of demand for B.C. forest products. By introducing new and advanced forest products, wood technologies and

⁵ The ability to achieve performance measures 2.3 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures—linked to FII's broader goals and targets—are set for each project. For more details, please refer to FII's Performance Management Framework.

building systems, wood is positioned as a preferred building material, and B.C. as a leader in wood innovation. As a result, B.C.'s forest products can be more effectively marketed for construction, interior design, and daily living, at home and abroad.

During 2016/17, strategies to achieve Goal 3 were delivered primarily through FII's Wood First program, which works to position B.C. as a leader in using innovative forest products and building systems. An independent Wood First Advisory Committee, made up of senior industry executives, provides strategic guidance on program implementation priorities. To effectively deliver its Wood First mandate, FII relies on existing research, as well as partnerships with service delivery organizations to promote integrated planning and coordinated delivery of program activities and initiatives.

Strategies

FII and its funding recipients pursued Goal 3 by:

- Advancing innovation through research and product development.
- Reducing barriers to wood use.
- Educating professionals on opportunities to utilize and innovate with wood.
- Promoting B.C.'s wood species, wood products and the benefits of building with wood.
- Advancing the competitiveness of B.C.'s value-added wood sector.

Performance Measure 3.1¹: Incremental Value of Wood Consumed in B.C.'s Non-Residential and Multi-Storey/Multi-Family Construction Sector⁶

Performance Measure	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Total sales (CAD, millions) of wood attributable to program interventions – B.C.'s non-residential and multi-storey/multi-family residential construction markets.	56 (baseline)	60	62	68

Data Source: FII.

¹) Performance measure 3.1 was a new metric in 2016/17.

Discussion

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. The target is based on the incremental increase in the value of wood sales that are generated in the year and influenced by program activities funded by FII and its funding partners. These Wood First program activities focus on delivering promotional, research, educational and capacity-building initiatives throughout the province.

The target for performance measure 3.1 was exceeded in 2016/17 as 42 projects were converted to wood during the year. These 42 projects resulted in an incremental \$60 million of wood use. The

⁶ The ability to achieve performance measure 3.1 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming and on other external factors impacting construction activity in B.C., such as the level of real estate investment and the process for approving and implementing building code changes. Timely funding decisions by FII ensure that funding is available to successful proponents by the start of each fiscal year. As part of the funding approval process, performance measures are established for each project. These measures are directly linked to FII's broader goals and targets. For more details, please see FII's Performance Management Framework.

largest share of these buildings are in building classification type “C” (apartments/hotel buildings) at 54 per cent, followed by type A2 (community/lecture halls, gymnasias, schools, restaurants, libraries) at 26 per cent.

Goal 4: FII serves its stakeholders in a highly effective, innovative and responsive manner.

FII’s business practices incorporate robust financial controls and a performance management framework that includes monitoring, audit and evaluation built on a comprehensive risk-assessment strategy. FII is committed to a path of environmental sustainability, including minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

Consistent with the strategic direction of Government under the *Taxpayer Accountability Principles*, FII continues to place 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, including MFLNRO and MIT. By partnering with forest sector organizations in Canada and abroad, FII is able to leverage their expertise and financial resources to create and deliver strategic and focused market development programming that provides the highest value for the B.C. forest sector.

Strategies

FII and its funding recipients pursued Goal 3 by:

- Ensuring FII is efficient, transparent and results focused by:
 - keeping corporate support costs at or below seven percent of total budget;
 - implementing a rigorous performance management system;
 - monitoring and auditing funded projects according to explicit risk assessments.
- Integrating Taxpayer Accountability Principles across the organization and working with MIT to develop strategic engagement and TAP evaluation plans.
- Continuously reviewing priorities and strategies to ensure that programs and services stimulate innovation in products and markets and are delivered in an effective and cost-efficient manner.
- Minimizing FII’s carbon footprint and promoting environmentally responsible business activities.

Performance Measure 4.1: Leveraged Funding

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Other organizations’ aggregate contribution to recipient funding program ⁱ .	65%	65%	68%	65%	69%	65%	65%

Data Source: Data to support performance measure 4.1 are sourced from FII’s on-line recipient funding system, which is

ⁱ⁾ co-funded and managed by FII and Natural Resources Canada, and through FII’s year-end financial reporting.

In its recipient-funding program, FII targets annual contributions of approximately 65% from other organizations; however, contributions from others vary from 0 to 85%, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

Discussion

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at the lowest possible cost to B.C. taxpayers, a key efficiency objective of the Government's Taxpayer Accountability Principles. The willingness of industry, the federal government and other provincial governments to contribute to market development activities is a direct indicator of the value they place on these activities, particularly at a time of severe resource constraints.

During the year, FII allocated a total of \$8.3 million to third party organizations to deliver market development activities in China, Japan, Korea and India in Asia; and the U.S. and Canada in North America. This funding from FII leveraged an additional \$19 million in federal and industry contributions, or 69 per cent of the total delivered recipient program. This exceeded the target set for the year. While the proportion of funds received from industry and the federal government varies by market and type of activity, FII's goal is to maintain an average of 65 per cent "other" funding in the program⁷.

In addition to the contributions of others to the ongoing recipient program, FII also draws other leveraged funding for its market development programming. For 2016/17, other funding included:

- \$600,000 from Natural Resources Canada for the India market development initiative; and
- \$2.5 million from the US-based Softwood Lumber Board to support FII's delivery of the reThink Wood initiative aimed at convincing American stakeholders to adopt new wood-based building technologies⁸.

⁷ The federal government does not fund activities in all markets where FII and industry are active. As a result, FII provides a higher share of overall funding in certain markets, increasing its average annual share of total program costs to just over one-third.

⁸ FII contributed \$348,148 to the reThink program in 2016/17, for a total of \$2.9 million.

Financial Report

Discussion of Results

The following table summarizes the revenue that FII anticipated at the start of 2016/17 and the actual revenue for the year:

Source	\$ million	
	2016/17 Budget	2016/17 ⁹ Actual
The Province of British Columbia	18.3	18.5
Natural Resources Canada	0.7	0.8
Other	<u>2.2</u>	<u>2.9</u>
TOTAL	21.2	22.2

In 2016/17 FII continued to leverage substantial funds from the Government of Canada. Natural Resources Canada (NRCan) provided \$600,000 to support FII India, and a further \$200,000 to support other market development initiatives.

The year-over-year increase in revenue from other sources is largely attributable to the Softwood Lumber Board (SLB) contractually engaging FII to deliver the SLB's reThink Wood program in the United States.

In 2016/17, the funds that FII provided to other organizations through competitive Calls for Proposals amounted to approximately 40 per cent of FII's total expenditures, with the balance used for direct service delivery by FII in Vancouver and its two subsidiaries.

During the year, FII managed the risks associated with funding and monitoring activities developed and delivered by third parties, and with initiatives delivered by FII in foreign and domestic markets. FII ended the year with a surplus of \$264,000; \$62,000 of which was funding that recipients returned to FII because they cancelled or postponed projects that FII had agreed to cost-share. The balance of the surplus was from FII direct delivered projects that did not materialize and from a year-end foreign exchange gain on transactions with the Company's two foreign subsidiaries.

⁹ Contributions received from the Province for tangible capital assets are recorded as deferred 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 assets. This accounts for the difference in the cash contributions received from the Province of B.C. and the provincial contributions recorded in the Consolidated Statement of Operations and Accumulated Surplus.

Financial Resource Summary Tableⁱ

(in thousands of dollars)

	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Budget	2016/17 Actual	Variance from 2016/17 Budget	Variance from 2015/16 Actual
								(under) over	(under) over
Operating Revenue									
Receipts - Province of BC	\$ 20,745	\$ 17,208	\$ 17,306	\$ 16,813	\$ 17,562	\$ 18,370	\$ 18,459	\$ 89	\$ 897
Receipts - Government - Other	284	624	731	1,028	823	700	832	\$ 132	\$ 9
Other Revenue	1,153	1,042	678	762	2,697	2,200	2,916	\$ 716	\$ 219
Total Revenue	\$ 22,182	\$ 18,874	\$ 18,715	\$ 18,603	\$ 21,082	\$ 21,270	\$ 22,207	\$ 937	\$ 1,125
Operating Expenses									
Market Outreach & Initiatives	15,935	13,463	12,901	12,274	14,298	14,440	15,713	1,273	\$ 1,415
China - Market Development	4,839	2,566	2,708	3,009	3,166	2,700	2,219	(481)	\$ (947)
India - Market Development	-	874	1,532	1,948	1,992	2,800	2,714	(86)	\$ 722
Corporate Support	1,388	1,317	1,181	1,226	1,178	1,330	1,297	(33)	\$ 119
Total Expenses	\$ 22,162	\$ 18,220	\$ 18,322	\$ 18,457	\$ 20,634	\$ 21,270	\$ 21,943	\$ 673	\$ 1,309
Net Income from Operations	\$ 20	\$ 654	\$ 393	\$ 146	\$ 448	\$ -	\$ 264	\$ 264	\$ (184)
Capital Expenditures	\$ 204	\$ 526	\$ 238	\$ 469	\$ 347	\$ 225	\$ 172	(53)	\$ (175)
Total Liabilities	\$ 1,969	\$ 1,897	\$ 2,100	\$ 2,905	\$ 2,493	\$ 2,100	\$ 3,196	1,096	\$ 703
Accumulated Surplus/Retained Earnings	\$ 1,170	\$ 1,824	\$ 2,217	\$ 2,363	\$ 2,811	\$ 2,811	\$ 3,075	264	\$ 264

ⁱ⁾ The budgets in these columns have been taken from the FII Service Plan published on February 2017; over time, changes to these numbers can be anticipated.

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, 2017 and the consolidated statement of operations, change in net assets, and cash flow for the year ending March 31, 2017 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.



Michael Loseth

Chief Executive Officer

Vancouver, British Columbia
May 19, 2017



Douglas Greig

Vice President and Chief Financial Officer



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, 2017 and 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.

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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, 2017 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
May 19, 2017

A handwritten signature in black ink that reads "Grant Thornton LLP".

Chartered Professional Accountants

Forestry Innovation Investment Ltd.
Consolidated Statement of Financial Position

(in thousands of dollars)

March 31	Note	2017	2016
Financial assets			
Cash		\$ 4,018	\$ 3,115
Accounts receivable		605	471
Recipient advances	4	7	70
Due from Province of British Columbia		16	23
Due from other governments		283	201
Total financial assets		<u>4,929</u>	<u>3,880</u>
Liabilities			
Accounts payable and accrued liabilities	3	1,429	1,078
Due to Province of British Columbia		6	4
Due to other governments		123	72
Recipient payables	4	358	307
Deferred contributions	6	1,280	1,032
Total liabilities		<u>3,196</u>	<u>2,493</u>
Net financial assets		<u>1,733</u>	<u>1,387</u>
Non-financial assets			
Tangible capital assets	7	671	844
Prepaid expenses		671	580
Total non-financial assets		<u>1,342</u>	<u>1,424</u>
Accumulated surplus		<u>\$ 3,075</u>	<u>\$ 2,811</u>

Commitments (Note 8)

Approved by the Board



Director



Director

See accompanying notes to the consolidated financial statements.

3

Forestry Innovation Investment Ltd.			
Consolidated Statement of Operations and Accumulated Surplus			
(in thousands of dollars)			
Year ended March 31	Budget	2017	2016
	<u>Note</u>		
Revenue	10		
Government contributions			
Provincial		\$ 18,370	\$ 17,562
Federal		700	823
Other revenue		2,200	2,653
Investment income		-	44
		<u>21,270</u>	<u>21,082</u>
Expenses	10		
Funding recipient initiatives		8,903	8,944
Market initiatives and outreach			
FII Vancouver		5,537	5,354
FII China		2,700	3,166
FII India		2,800	1,992
Corporate services		1,330	1,178
		<u>21,270</u>	<u>20,634</u>
Annual surplus		-	448
Accumulated surplus, beginning of year		<u>2,811</u>	<u>2,363</u>
Accumulated surplus, end of year		<u>\$ 2,811</u>	<u>\$ 2,811</u>

See accompanying notes to the consolidated financial statements.

4

Forestry Innovation Investment Ltd.			
Consolidated Statement of Changes in Net Financial Assets			
(in thousands of dollars)			
Year ended March 31	Budget	2017	2016
Annual surplus	\$ -	\$ 264	\$ 448
Acquisition of tangible capital assets	(225)	(172)	(347)
Amortization of tangible capital assets	255	343	384
Disposal of tangible capital assets	-	2	27
(Acquisition) use of prepaid expenses	-	(91)	65
Increase in net financial assets	30	346	577
Net financial assets, beginning of year	1,387	1,387	810
Net financial assets, end of year	\$ 1,417	\$ 1,733	\$ 1,387

See accompanying notes to the consolidated financial statements.

5

Forestry Innovation Investment Ltd.
Consolidated Statement of Cash Flows

(in thousands of dollars)

Year ended March 31 2017 2016

Cash provided by (used in):

Operating			
Annual surplus	\$	264	\$ 448
Items not involving cash			
Amortization of tangible capital assets		343	384
Amortization of deferred contributions		(630)	(434)
Loss on disposal of tangible capital assets		2	27
Change in accounts receivable		(134)	19
Change in recipient advances		63	(70)
Change in due from Province of British Columbia		7	3
Change in due from other governments		(82)	391
Change in accounts payable and accrued liabilities		351	(174)
Change in due to Province of British Columbia		2	2
Change in due to other governments		51	51
Change in recipient payables		51	(55)
Change in prepaid expenses		(91)	65
		<u>197</u>	<u>657</u>
Capital			
Acquisition of tangible capital assets		(172)	(347)
Financing			
Receipt of deferred contributions		<u>878</u>	<u>433</u>
Increase in cash		903	743
Cash, beginning of year		<u>3,115</u>	<u>2,372</u>
Cash, end of year	\$	<u>4,018</u>	\$ <u>3,115</u>

See accompanying notes to the consolidated financial statements.

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Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
March 31, 2017

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.

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, 2017, 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; 0939031 B.C. Ltd., a wholly-owned subsidiary registered under the laws of British Columbia; and Forestry Innovation Consulting India Pvt. Ltd. ("FII India"), a wholly-owned subsidiary of the Company and 0939031 B.C. Ltd., 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.

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements
(in thousands of dollars)
March 31, 2017

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.

(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) Financial instruments

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

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

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
 March 31, 2017

2. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

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

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.

(g) 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.

(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.

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
 March 31, 2017

2. Summary of significant accounting policies (continued)

(h) 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.

(i) 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 June 21, 2016.

(j) 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 useful lives of property and equipment. Actual results could differ from those estimates.

(k) Segment disclosures

A segment is defined as a distinguishable activity or group of activities of an entity 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.

3. Accounts payable and accrued liabilities	2017	2016
Trade payables	\$ 794	\$ 516
Accrued liabilities	635	562
	\$ 1,429	\$ 1,078

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
 March 31, 2017

4. Recipient advances and payables

The Company's policy on recipient funding contracts stipulates 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.

In addition, the Company withholds 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, 2017, the Company has identified \$358 (2016 - \$307) as payable to the recipient organizations and \$7 (2016 - \$70) as receivable from the recipient organizations.

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, 2014 indicated a \$194 million funding surplus for basic pension benefits.

The plan is accounted for as a defined contribution plan. During the year ended March 31, 2017, the Company paid \$179 (2016 - \$159) for employer contributions to the plan.

6. Deferred contributions

Deferred contributions consist of contributions received from the Province for tangible capital assets and other capital and operating contributions for which goods and services remain outstanding. Deferred contributions are comprised of the following:

	<u>Provincial</u>	<u>Other</u>	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 778	\$ 254	\$ 1,032	\$ 1,033
Contributions received during the year	175	703	878	433
Amounts amortized to revenue	<u>(341)</u>	<u>(289)</u>	<u>(630)</u>	<u>(434)</u>
Balance, end of year	<u>\$ 612</u>	<u>\$ 668</u>	<u>\$ 1,280</u>	<u>\$ 1,032</u>

Included in Provincial deferred contributions is \$Nil (2016 - \$ Nil) that is unspent.

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements
(in thousands of dollars)
March 31, 2017

7. Tangible capital assets

(a) Assets in use

Cost

	2016	Additions	Disposals	2017
Computer equipment	\$ 717	\$ 123	\$ (157)	\$ 683
Computer software	76	-	(21)	55
Furniture and equipment	387	12	(15)	384
Leasehold improvements	1,105	-	-	1,105
Tradeshow booths	585	37	-	622
	<u>\$ 2,870</u>	<u>\$ 172</u>	<u>\$ (193)</u>	<u>\$ 2,849</u>

Accumulated amortization

	2016	Amortization	Disposals	2017
Computer equipment	\$ 623	\$ 58	\$ (157)	\$ 524
Computer software	63	7	(21)	49
Furniture and equipment	279	34	(13)	300
Leasehold improvements	619	162	-	781
Tradeshow booths	442	82	-	524
	<u>\$ 2,026</u>	<u>\$ 343</u>	<u>\$ (191)</u>	<u>\$ 2,178</u>

Net book value

	2016	2017
Computer equipment	\$ 94	\$ 159
Computer software	13	6
Furniture and equipment	108	84
Leasehold improvements	486	324
Tradeshow booths	143	98
	<u>\$ 844</u>	<u>\$ 671</u>

(b) 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.

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements
(in thousands of dollars)
March 31, 2017

8. Commitments

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

2018	\$	961
2019		319
2020		239
	\$	1,519

(b) The Company also has an obligation to pay \$396 (2016 - \$1,784) for contracts entered into and not yet completed at March 31, 2017.

(c) Cash consists of an operating line of credit with HSBC Bank of Canada with maximum available credit of \$2,000,000 which incurs interest at prime plus 0.5% per annum. As of March 31, 2017, no amounts have been withdrawn through the utilization of the credit line.

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 cost share agreements which are monitored on a regular 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, 2017, accounts receivable, recipient advances, amounts due from the Province, and amounts due from other governments are comprised of:

	Under 90 days	Over 90 days	Total
Accounts receivable	\$ 605	\$ -	\$ 605
Recipient advances	7	-	7
Due from Province of British Columbia	16	-	16
Due from other governments	283	-	283
Allowance for doubtful accounts	-	-	-
	\$ 911	\$ -	\$ 911

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(In thousands of dollars)

March 31, 2017

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 two 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 and United States dollars. 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. Included in office costs is \$109 (2016 – \$155) foreign exchange gains.

The amounts shown are translated to Canadian dollars at the closing rate:

	2017			
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 332	\$ 430	\$ 65	\$ 827
Accounts receivable	-	-	263	263
Accounts payable	-	164	246	410
	2016			
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 157	\$ 258	\$ 40	\$ 455
Accounts receivable	-	1	161	162
Accounts payable	-	243	150	393

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
March 31, 2017

9. Financial instruments risk management (continued)

Market risk (continued)

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.

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 BC wood products in existing and emerging markets;
- Ensure that customers, consumers, designers, builders, developers and architects know about BC 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 BC's forest products and the BC companies that supply them.

(b) Market Initiatives and Outreach Program

(i) FII Vancouver Initiatives

Internally directs delivered programs that:

- Identify potential opportunities for BC forest products through market research and develop market access strategies;
- Ensure BC forest products have access to markets free from regulatory and other barriers through initiatives and research;
- Provide customers and foreign regulators with facts about the environmental merits of BC forest products, including the sustainable forest management regime that underlies their production;
- Research opportunities in new and emerging markets, and initiate early market exploration activities;
- Champion the Province's Wood First priorities and encourage expanded wood use in BC;

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
March 31, 2017

10. Segmented information (continued)

(b) Market Initiatives and Outreach Program (continued)

(i) FII Vancouver Initiatives (continued)

- Raise awareness of the Province as a world leader in advanced wood construction and design; and
- Encourage a robust valued-added sector in BC through enhanced capacity and competitiveness.

(ii) FII China Initiatives

FII China has a mandate to increase the volume and value of BC 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.

(iii) FII India Initiatives

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

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

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Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)
 March 31, 2017

10. Segmented information (continued)

	Funding Recipient Initiatives	Market Initiatives and Outreach			Corporate Services	2017 Total	2016 Total
		FII Vancouver	FII China	FII India			
Revenues							
Government contributions							
Provincial	\$ 8,903	\$ 3,202	\$ 2,786	\$ 2,256	\$ 1,312	\$ 18,459	\$ 17,562
Federal	181	51	-	600	-	832	823
Other revenue	43	2,618	15	175	9	2,860	2,653
Investment income	-	-	-	-	56	56	44
Total revenues	9,127	5,871	2,801	3,031	1,377	22,207	21,082
Expenses							
Amortization	-	8	102	149	84	343	384
Auditing	298	-	38	27	44	407	309
Grants	693	-	-	-	-	693	278
Office costs	33	231	311	395	199	1,169	1,403
Professional services	176	3,635	458	834	96	5,199	4,599
Program costs	8,414	291	108	104	(57)	8,860	8,306
Salaries, wages and benefits	272	1,541	1,018	860	801	4,492	4,492
Trade missions	-	23	-	-	-	23	197
Travel and business costs	-	98	184	345	130	757	666
Total expenses	9,886	5,827	2,219	2,714	1,297	21,943	20,634
Annual surplus (deficit)	\$ (759)	\$ 44	\$ 582	\$ 317	\$ 80	\$ 264	\$ 448

Appendix A: Subsidiaries and Operating Segments

Active Subsidiaries

Forestry Innovation Investment Ltd. operates the following subsidiary companies:

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

Primary business: Supporting the B.C. forest industry by directing market research and leading government relations and business development, particularly with state owned enterprises.

Objective: To grow the market for B.C. wood products in China, primarily by creating new demand for structural lumber and related building products.

Governance: Sole Executive Director: Michael Loseth, FII CEO

Senior Management: Lisa Dou, General Manager

Strategic Direction and Operating Environment: The business activities and priorities of FII Consulting (Shanghai) Co. Ltd. are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd. The subsidiary company is also in full compliance with the Government's *Taxpayer Accountability Principles*.

Risk Management: FII funds its market development programming in China from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Chinese Renminbi. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable. The downward trend in the value of the Canadian dollar against the U.S. dollar has increased FII's exchange rate risk as the value of the Chinese Renminbi is roughly pegged against the U.S. dollar. Consequently, increases or decreases in the value of the U.S. dollar relative to other currencies can affect the value of the Renminbi against the Canadian dollar.

Financial Resource Summary Table
FII Consulting (Shanghai) Co. Ltd.
(in thousands of dollars)

	2015/16 Actual	2016/17 Budget	2016/17 Actual
Operating Revenue			
Receipts - Forestry Innovation Investment	\$ 3,166	\$ 2,700	\$ 2,219
Total Revenue	\$ 3,166	\$ 2,700	\$ 2,219
Operating Expenses			
China - Market Development	3,166	2,700	2,219
Total Expenses	\$ 3,166	\$ 2,700	\$ 2,219
Net Income from Operations	\$ -	\$ -	\$ -

FII Consulting India Private Limited (jointly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.¹⁰)

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, undertaking product trials and demonstration work, and leading communication and education outreach efforts to enhance awareness of B.C. and Canadian softwood species in India.

Objective: To establish a new market for B.C. wood products in India by creating demand for lumber suitable for the manufacture of furniture, doors and windows, interior millwork and other non-structural products.

Governance: Three-member Board of Directors:

- Michael Loseth (Chair), FII CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Pranesh Chhibber, FII India Country Director

Senior Management: Pranesh Chhibber, Country Director, FII India

Strategic Direction and Operating Environment: The business activities and priorities of FII Consulting India Private Limited are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd. The subsidiary company is also in full compliance with the Government's *Taxpayer Accountability Principles* (for more information on FII's compliance with TAP, refer to pages 3-5).

Risk Management: FII funds its market development programming in India from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Indian Rupees. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable. Over the past year, the value of the Canadian dollar against the Rupee declined marginally, slightly increasing FII's exchange rate costs for India operations.

¹⁰ This joint ownership exists to meet India's requirement that there be at least two shareholders of a foreign-owned company.

Financial Resource Summary Table
FII Consulting India Private Limited
(in thousands of dollars)

	2015/16 Actual	2016/17 Budget	2016/17 Actual
Operating Revenue			
Receipts - Forestry Innovation Investment	\$ 1,392	\$ 2,200	\$ 2,114
Receipts - Natural Resources Canada	\$ 600	\$ 600	\$ 600
Total Revenue	\$ 1,992	\$ 2,800	\$ 2,714
Operating Expenses			
India - Market Development	1,992	2,800	2,714
Total Expenses	\$ 1,992	\$ 2,800	\$ 2,714
Net Income from Operations	\$ -	\$ -	\$ -

Inactive Subsidiary

FII maintains a non-operating subsidiary company, **0939031B.C. Ltd.** (wholly owned by Forestry Innovation Investment Ltd.) whose sole purpose is to function as the second shareholder of FII Consulting India Private Limited (reflecting India legislation that requires foreign-owned companies to have at least two shareholders).

Appendix B: Additional Information

Corporate Governance

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

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. FII's [*Status of Concurrence with Best Practices Guidelines*](#) is available on the Company's website.

Full details on the role and membership of the Board of Directors, as well as corporate reports, and details on adherence to the requirements of the Board Resourcing and Development Office are also available on the www.bcfii.ca web site.

Organizational Overview

FII works with the forest industry, the Government of Canada, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value to taxpayers and stakeholders, and reflecting the Province's *Taxpayer Accountability Principles*, FII uses a joint delivery model for program delivery. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations.

Details on the mandate of FII, its vision, mission and values, and its organizational structure are available at www.bcfii.ca as are previous Service Plans and Annual Reports. Also available on the site is additional information on FII, its programs and its partners, including an annual *Report to Stakeholders* that highlights accomplishments of the program in major markets around the world.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest product companies and trade associations.

Appendix C: Crown Corporation's Mandate and Actions Summary

In the *2016/17 Mandate Letter* from the Minister responsible, Forestry Innovation Investment received direction on strategic priorities for the 2016/17 fiscal year. These priorities and the Crown Corporation's resulting actions are summarized below:

Mandate Letter Direction	Crown Corporation's Action
<p>1. Retain a strong focus on building markets in Asia through:</p> <ul style="list-style-type: none"> a. Ensuring programs reflect China's changing economic realities and continue to advance the use of B.C. wood in construction and other applications; b. Aligning Forestry Innovation Investment's market development activities with Government's three-year market strategy for India; and c. Working with the forest industry in identifying and advancing opportunities in Southeast Asia. 	<ul style="list-style-type: none"> • Completed updates on market development strategies for China, India and Japan. The strategies establish the priorities for FII's investments and operations in the markets over the next three years. • Maintained co-location with the Ministry of International Trade's (MIT) operation in Mumbai and continued expansion of the India program by opening satellite offices in the Delhi region and Bangalore. • Completed market opportunity research in Vietnam focused on opportunities for B.C. products in the manufacturing sector. This was followed by an FII-led mission to Vietnam in May, 2017.
<p>2. Implement the five-year strategic plan FII developed last year, and the organization's updated Service Plan performance measures.</p>	<ul style="list-style-type: none"> • Funded and delivered a comprehensive Market Initiatives and Market Outreach program to expand B.C.'s exports in major markets in Asia, North America and Europe. • Guided by market-specific development strategies, FII allocated a total of \$6.4 million to third party organizations to deliver market development activities in China, Japan, Korea, India, the US and Europe. This funding leveraged an additional \$19 million in federal government and industry contributions. • Partnered with the US-based Softwood Lumber Board (SLB) to deliver the \$2.9 million reThink Wood program for which the SLB contributed over 85% of total funding for this FII-managed initiative. • Led the Wood First program to further establish B.C. as a leader in developing and using innovative wood products and building systems. During the year, FII allocated a total of \$2.7 million to seven organizations to deliver Wood First initiatives on behalf of FII and the B.C. Government.

	<ul style="list-style-type: none"> • Began tracking performance per the updated metrics contained in the 2016/17 Service Plan
<p>3. Collaborate with the Ministry of Forests, Lands and Natural Resource Operations to jointly develop and implement an action plan for the value added wood products sector and align FII’s activities with those of Government.</p>	<ul style="list-style-type: none"> • Collaborated with the Ministry of Forests, Lands and Natural Resource Operations (MFLNRO) to support the goal of creating a diverse, globally competitive forest industry. • Worked with MFLNRO and MIT to complete a review of existing export programming, and best practices from other sectors and jurisdictions as a precursor to launching a pilot program to support new value added exporters.