

BCIIF SERVICE PLAN 2009-2012

February 2009



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Chairman's Message to The Minister Responsible

The Honourable Ida Chong, Minister of Small Business, Technology, and Economic Development

The B.C. Immigrant Investment Fund (BCIIF) Service Plan provides insight into the main activities anticipated in 2009-2010 and beyond. This is the second Service Plan for the BCIIF. Prior to 2008-2009, the BCIIF entered into loans with five entities that are within the Government Accounting Entity in accordance with its mandate. In 2007-2008, The Minister of Finance approved a request by the BCIIF's wholly-owned subsidiary, the B.C. Renaissance Capital Fund Ltd. (BCRCF) to invest \$90 million with six venture capital fund managers. The BCRCF completed an RFQ process and selected fund managers with whom it has committed to invest in high technology businesses.

For 2009-2010 and subsequent fiscal years, the BCIIF with its remaining capital pool, will continue to pursue commercial lending activity with entities within the Government Reporting Entity. The BCRCF will continue to monitor the performance of its venture capital fund partnerships and will continue to promote venture capital investment opportunities in the Province.

Accountability Statement

The 2009/10 - 2011/12 BCIIF Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The plan is consistent with government's strategic priorities and Fiscal Plan. The Board is accountable for the contents of the plan, including the selection of performance measures and targets.

All significant assumptions, policy decisions, and identified risks, as of February 2009 have been considered in preparing the plan. The performance measures presented are consistent with the BCIIF's mandate and goals, and focus on aspects critical to the organization's performance. The performance targets in this plan have been determined based on an assessment of the BCIIF's operating environment, forecast conditions, risk assessment and past performance.

Sincerely,
Brian Hansen
Chairman and President
BC Immigrant Investment Fund Ltd.

Victoria, British Columbia
February 2009

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1. ORGANIZATIONAL OVERVIEW

The B.C. Immigrant Investment Fund Ltd. (the "Corporation" or "BCIIF") was incorporated on September 19, 2000 under the *Company Act* of British Columbia and is wholly owned by the Province of British Columbia.

The Corporation is an approved fund under the federal Immigrant Investor Program (the "Program"), administered by Citizenship and Immigration Canada. The Program provides an opportunity for experienced business persons to immigrate to Canada after depositing a prescribed sum of money with the federal Minister of Citizenship and Immigration. The federal Minister then disburses these monies to approved funds according to an allocation formula set out in the Immigration and Refugee Protection Regulations, 1978. The regulations require approved funds participating in the Program to invest in initiatives that contribute to economic development and job creation in Canada.

The BCIIF receives and manages the provincial allocation of funds under the Program. The Program confers discretion on the provinces to manage their allocation of the Program's immigrant investor funds ("Funds") for investment in economic development and job creation. Provincial allocations are repayable to the federal government without interest on the fifth anniversary of their receipt. In order to participate in the Program, the Province has provided the federal government with a repayment guarantee of the Funds up to \$300 million.

The B.C. Renaissance Capital Fund Ltd.



wholly owned by the BCIIF. It is administered by the Ministry of Small Business, Technology, and Economic Development. The purpose of the BCRCF is to attract

The B.C. Renaissance Capital Fund Ltd. (the "BCRCF") is a crown corporation that is

successful venture capital managers and their capital to British Columbia in order to develop promising, innovative technology companies in the Province. In August 2007, the provincial Treasury Board approved an allocation of \$90 million from the BCIIF to the BCRCF for the purposes of pursuing investment in four key technology sectors: new media, information technology, life sciences and clean technology.

The objectives of the BCRCF are to:

- Generate superior, risk-adjusted returns for the capital committed;
- Increase the probability that innovative new goods and services in British Columbia gain full-scale commercialization;
- Increase the depth of the venture capital market in British Columbia; and
- Enhance the visibility of British Columbia as an attractive market for venture capital opportunities in North America and globally.

In April 2008, the BCRCF announced that it is investing a total of \$90 million with six venture capital fund managers, who collectively manage more than \$2 billion of investment capital. Each of the managers has a proven track record of investing successfully in one or more of the four key technology sectors. The six fund managers are:

- ARCH Venture Partners
- Celtic House Venture Partners
- Kearny Venture Partners
- VantagePoint Venture Partners
- Ventures West
- Walden Venture Capital

Each of the six venture capital firms has committed to perform certain investment-related activities in British Columbia (a "BC strategy") in order to increase the probability of successful investment in the Province. Some of these commitments include, for example:

- Opening offices in British Columbia

- Forming strategic alliances with local venture capital firms
- Hosting and attending investor forums in British Columbia to establish networks with local stakeholders and explore investment opportunities in the Province
- Spending a specified number of days, at the partnership level, per quarter in British Columbia

The BCRCF commitments have been finalized with three of the six fund managers through formal limited partnership agreements and side letter agreements.

The commitments with the other three fund managers have been made conditional upon certain criteria being satisfied before the end of the fiscal year 2008-09. Most notably, these three funds must successfully raise specified minimum capital commitments from other institutional investors before the BCRCF will enter agreements with, or release any capital to, the fund managers. Contingency plans for the re-allocation of capital are now being made in the event that any of these three fund managers fail to meet the mandatory criteria by the end of the fiscal year.

Over the next five years (the “investment period”), the fund managers will make investments in the four key technology sectors of biotech, clean technology, IT and new media. In the five years following the investment period, the BCRCF expects to realize returns from its investments.

BCRCF staff will monitor and track the underlying fund investments and the financial performance of the fund managers with the use of a specialized limited partner software program.

2. CORPORATE GOVERNANCE

The BCIIIF is governed by a Board of Directors consisting of two members. The Minister of Technology, Trade and Economic Development appoints the board members. The BCIIIF works closely with the Ministry and is acting with due regard to the Crown Agency Secretariat's and the Board Resourcing and Development Office's Governance guidelines.

The Board of Directors has the following responsibilities:

- ensure appropriate controls and accountabilities are in place;
- recommend policies for investment decisions to Treasury Board;
- ensure reporting requirements are fulfilled;
- approve the annual budget; and
- appoint the auditors.

In 2008-09, the Directors of the BCIIIF are:

1. Brian Hansen (Chair), Acting Assistant Deputy Minister, Ministry of Small Business, Technology, and Economic Development
2. Jim Hopkins, Assistant Deputy Minister, Ministry of Finance

A process is now underway to select and appoint a third director, who is expected to come from the private sector.

The signing officers of the BCIIIF are:

1. Brian Hansen, President and Chairman
2. Jim Hopkins, Director
3. Jim Soles, Vice-President of Operations
4. Terry Gelinas, Comptroller
5. Barb Searle, Treasurer

The directors of the BCRCF are the same as the directors of the BCIIIF.

The signing officers of the BCRCF are:

1. Brian Hansen, President and Chairman
2. Jim Hopkins, Director
3. Todd Tessier, Vice-President of Investments
4. Jim Soles, Vice-President of Operations
5. Terry Gelinas, Comptroller
6. Barb Searle, Treasurer

BCIIIF Values

Integrity – the Corporation and its Board of Directors will act honestly, in good faith and in the best interests of the BCIIIF.

Accountability – the BCIIIF will operate with fiscal responsibility to maximize the financial returns from the funds invested.

Economic Development – the BCIIIF will, to the extent that it is consistent with fiscal responsibility, invest in initiatives that promote economic development and create employment in British Columbia.

3. STRATEGIC CONTEXT

Federal Immigrant Investor Program

Under the Program's provincial allocation formula, the BCIIIF now receives an allocation of approximately \$300 million in net receipts. As the Program becomes more popular and attracts more immigrant participants, the total funds and thus the BCIIIF's allocation are expected to increase.

The BCIIIF is required to return funds to the federal government five years after receipt. Accordingly, the BCIIIF must manage its investments to: (1) provide for needed liquidity in the future, (2) maximize investment returns, and (3) satisfy the Program's economic development criteria.

The funds are targeted broadly for economic development in the Province. More specifically, they have been directed to two distinct areas:

- public infrastructure investments and venture
- capital investments.

Public Sector Infrastructure

BC continues to invest in public sector infrastructure in order to meet the needs of a growing economy. Multi-billion dollar investments are needed over the next 3 years to build and upgrade schools, universities, colleges, hospitals, roads and bridges. The BCIIIF is well positioned to participate in the financing of some of these investments.

Economic Outlook

The private sector now expects that BC will experience slower economic growth in 2009 and 2010 than it has in previous years. Recent estimates from BC's Economic Forecast Council project BC's annual real GDP growth to be 0.6 per cent in 2009 and 2.7 per cent in 2010. Risks to BC's economic outlook include a prolonged US recession, continued turmoil in global financial markets, slower global demand for BC products, volatile commodity prices and further moderation of domestic

demand in BC. The federal program funding allocation formula for British Columbia is not expected to be materially affected by the downturn.

The current investments made by the BCIIIF in the BC public sector are expected to perform as planned without any impairment. However, returns associated with the venture capital industry are largely dependent on the availability of public offerings and corporate credit to fund acquisitions. A prolonged US recession may extend the timeframe from which returns will be generated from the BCRCF fund manager investments due to challenges faced by fund managers raising their portion of capital and delay returns generated by these investments. Steps described under section 6 cover how these risks are being managed by the BCIIIF Board and its management.

Current Investments

British Columbia Institute of Technology (BCIT) – Aerospace Technology Campus



The BCIIIF loaned \$60 million to aid in the construction of the BCIT aerospace facility. The new Aerospace Technology Campus transitioned from construction to full operations in September 2007.

The facility is a 285,000 square foot facility located in Richmond, BC containing over 40 classrooms and "smart" labs with the latest training computers, equipment and wireless technology. Programs supported by the facility include training for the

maintenance, repair and overhaul of aircraft, their engines, and electronics as well as airport operations and commercial pilot training. A new and exciting program being supported by the Aerospace Campus is the Air Traffic Services Diploma program. The new state of the art facility has been attributed with attracting considerable interest from non-traditional groups such as young women to BCIT's aerospace programs. As a result of the aerospace facility, 300 full-time jobs were created.

UVIC – Technology Enterprise Facility (TEF)



The BCIF loaned \$5 million to help facilitate the purchase of the TEF. The facility has generated 90 full-time jobs and accommodates major institutional research projects such as:

CARBC - Centre for Addictions Research BC

The project will help build research infrastructure and capacity across British Columbia for the conduct of research that will increase understanding and support more effective responses to substance use.

NEPTUNE Canada research project

Neptune will be the first regional-scale underwater ocean observatory that plugs directly into the internet and will enable ocean scientists to run deep-water experiments from laboratories and universities anywhere around the world.

VENUS research project

Venus is a cabled ocean observatory designed as an undersea laboratory for ocean researchers.

University of the Fraser Valley – Student Residence

The BCIF loaned \$14 million for the construction of a self-supporting 4-story residence building, housing up to 204 students for the Abbotsford campus. As a result of the residence, 17 full-time jobs were created.

Nicola Valley Institute of Technology

– Student Residence

The BCIF loaned \$3.3 million to assist with the construction of two self-supporting 3-story residence buildings, housing up to 72 students. As a result of the student residence, 39 full-time jobs were created.

Simon Fraser University Foundation

– Condominium Units

The BCIF loaned \$5.1 million to support the purchase of Verdant Condominium Units by the Foundation. These units are designated for university faculty. As a result of the acquisition, 50 full-time jobs were created.

Venture Capital Investments

As mentioned above, the BCRCF will invest up to \$90 million in high technology companies through its limited partnerships with six experienced venture capital fund managers. Although most of the venture capital investments will be made over the next two to three years, there have already been two notable investments in British Columbia companies by Renaissance Fund partnerships.

Angstrom Power Inc.



The VantagePoint diversified fund has made a \$2 million investment in a Vancouver-based clean tech company called Angstrom Power Inc. ("Angstrom"). Angstrom

produces a high energy density micro fuel cell for portable devices such as flashlights and cell phones.

Ostara Nutrient Recovery Technologies Inc.



The VantagePoint clean tech fund recently led a \$10.5 million investment in Ostara Nutrient Recovery Technologies Inc. ("Ostara"). Ostara is a water purification company that

uses technology developed at the University of British Columbia to recycle wastewater into a commercial-grade fertilizer product called Crystal Green.

4. GOALS, STRATEGIES, PERFORMANCE MEASURES AND TARGETS

GOAL 1: To generate positive returns on investments.

STRATEGIES

- Continue to pursue investments in public infrastructure.

PERFORMANCE MEASURES			TARGETS		
	07/08 Actual	08/09 Estimate	09/10	10/11	11/12
1. New investments made within public infrastructure	\$44M	\$30M	\$30M	\$30M	\$30M

GOAL 2: To stimulate economic development through the commercialization of innovation and investment in high technology.

STRATEGIES

- Continue to pursue investments of up to \$90 million in venture capital.
- Invest with six venture capital fund managers focused on Information Technology, Life Sciences, New Media and Clean Technology sectors.

PERFORMANCE MEASURES			TARGETS		
	07/08 Actual	08/09 Estimate	09/10	10/11	11/12
1. Cumulative venture capital fund capital commitments made by the BCRCF	\$35M	\$70M	\$90M	\$90M	\$90M

5. SHAREHOLDER'S LETTER OF EXPECTATIONS

Key Assumptions

The Shareholder provided direction to the BCIF consistent with the general direction to Crown corporations regarding the roles and responsibilities of the signatories in the Shareholder's Letter of Expectations of December 2008. In addition, the Shareholder directed the BCIF to take the following specific actions:

- The Corporation will complete its capital commitments of up to \$90 million in venture capital investments;
- The Corporation will continue to increase investment in entities which are in the Government's Reporting Entity to finance capital projects and which qualify under the applicable federal regulations. For this purpose, the Corporation will use the services of the Ministry of Finance via a service level agreement.
- Subject to Treasury Board approval, the Corporation will, in conjunction with the Ministry of Small Business, Technology, and Economic Development, identify activities to enhance our province's labour attraction activities and fund from interest earned on investments.
- The Corporation will use the services of the British Columbia Investment Management Corporation for investment of the fund in liquid instruments, other than amounts allocated to venture capital and Government Reporting Entity investments.
- The Corporation, in consultation with the Ministry, Crown Agencies Secretariat and the Board Resourcing and Development Office, will develop a new governance and Board structure.

The BCIF Board has commenced meetings with the management of the fund in accord with the Shareholder's directions and a full review of company governance and Board structure will be carried out in 2009/10.

6. SUMMARY FINANCIAL OUTLOOK

Service Plan Summary

(\$000)	2007/08 (Actual)	2008/09 (Estimate)	2009/10 (Forecast)	2010/11 (Forecast)	2011/12 (Forecast)
Revenue					
Investment Income	8,496				
BCIMC Investment Income		3,897	1,033	539	879
BCIMC Gain/Loss		41			
BCIMC FX Gain/Loss		243			
BCIF Foreign Exchange Gain/Loss		179			
BCRCF FX Gain/Loss		1,702			
Total Investment Income	8,496	6,062	1,033	539	879
Interest Income					
BCIT		2,931	2,885	2,836	2,785
UVIC - TEF		227	220	211	203
UCFV		689	673	656	639
NVIT		79	157	154	152
SFU		261	257	253	248
New Loan 1		250	982	956	928
New Loan 2		-	744	969	942
New Loan 3		-	250	982	956
New Loan 4		-	-	744	969
Total Interest Income	3,882	4,438	6,167	7,761	7,821
Total Revenue	12,378	10,500	7,200	8,300	8,700
Expenses					
Advertising and Promotion					
BCIIF Marketing		16	32	32	32
BCRCF Marketing		75	79	83	87
Amortization of Discount	2,942	4,200	4,200	4,200	4,200
Professional Fees	412				
CPF Mgmt Fee		111	171	229	232
BCRCF Fund Administration Fee		370	386	403	421
Other					
Venture Capital Management Fee		760	2,004	2,004	1,989
Total Expenses	3,354	4,772	4,868	4,947	4,972
Net Income (loss)	9,024	5,728	2,332	3,354	3,728

Full Time Equivalents

There are 1.25 full time equivalents devoted to the BCIF management and reporting in addition to the Board member commitments.

Key Assumptions

The BCIF's forecast assumes that the federal Program will continue to provide monthly allocations at the current levels as has been indicated by the Program administrators at the CIC.

This Service Plan incorporates "forward-looking statements" including information relating to anticipated growth in revenues, growth in retained earnings, anticipated investment performance, anticipated expense levels and the expected effects of interest rate changes.

Actual results may differ materially from those in forward-looking information as a result of various factors, some of which are beyond the BCIF's control, including but not limited to those discussed under the heading "Financial Risks".

7. FINANCIAL RISKS

Termination of Federal Immigrant Investor Program

An unanticipated termination of the federal Program by the federal government could have a material impact on the financial condition of the BCIF and could lead to the drawdown of at least some of the \$300 million provincial guarantee. This could arise because the BCIF makes investment commitments which exceed the five-year term for returning funds to the federal government. Based on discussions with the federal administrators, the BCIF believes that the likelihood of Program termination without significant notice is extremely low.

Interest Rate Risk

Interest rate risk means that changes in interest rates may affect the financial position of the BCIF. The BCIF manages its exposure to interest rate risk by holding a portfolio of fixed and floating rate investments. The BCIF has invested its funds in capital projects with fixed rate obligations and investments with BC Investment Management Corporation ("BCIMC") on a floating rate basis. Material movements in interest rates will impact revenues from the floating rate portfolio, and the return on new funds and re-investment of capital in the future.

The current economic slowdown has resulted in central banks lowering administered interest rates which in turn has significantly reduced interest income from short term investments. A low interest rate environment may continue well into the new fiscal year and impact BCIF investments with bcIMC.

Market Risk

Market risk is the risk of changes in the value of venture capital investments. These investments are at the high end of the risk spectrum, typically in illiquid private companies. Further cash distributions from venture capital partnerships are not expected to begin until more than five years after the date of initial capital commitment, i.e. not before 2013

or 2014 at the earliest. The BCIF has managed this risk by conducting due diligence, with the assistance of an independent financial advisor, on each of the prospective venture capital fund managers. The purpose of the due diligence was to confirm that each of the fund managers has a demonstrated track record of successful investing in high technology businesses in the four key sectors. Furthermore, the BCIF diversifies its venture capital investments across industries and geographic regions and limits its allocation to no more than 20% of any given individual venture capital fund.

The venture capital investments also pose foreign currency risk because the selected funds are denominated in U.S. dollars. The BCIF has mitigated this currency risk by purchasing three forward currency contracts in November and December of 2007 at an exchange rate of approximately one-to-one (Canadian dollar at par with U.S. dollar).

Credit Risk

The BCIF is exposed to credit risk in the event of non-performance by a public sector borrower. BCIF assesses this risk when considering loans. For the most part an unsecured and general obligation from a public sector institution in the Government Reporting Entity, ranking *pari passu* to other borrowings, is judged sufficient. However, BCIF has taken collateral on a loan to mitigate against potential credit risks – i.e. in the case where the borrower has limited financial assets. Current market conditions indicate a prolonged crisis involving the availability of financing for major projects. The BCIF management will follow prudent due diligence practices to ensure that loan investments being evaluated pose minimal credit risk, and, as required, are backed with adequate security.

Budget Information

The budget information provided is fully consistent with the Ministry of Small Business, Technology and Economic Development's resource Summary and the forecast is fully consistent with the Government's Fiscal Plan.

8. CAPITAL PLAN AND MAJOR CAPITAL PROJECTS

The BCIF does not have any capital projects in excess of \$50 million

9. SUBSIDIARY OR OPERATING SEGMENT SUMMARY INFORMATION

As described above, the BCIF has one subsidiary, the B.C. Renaissance Capital Fund Ltd. The purpose of the subsidiary is to invest in venture capital.

10. CONTACT INFORMATION

B.C. Immigrant Investment Fund Ltd.

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