



Forestry Innovation Investment

Service Plan

2011/2012 – 2013/2014



Cover Image: 6-Story wood-frame construction, Library Square, Kamloops, B.C., Canada
Photographer: Stephanie Tracy, Photography West

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Message from the Board Chair to the Minister Responsible

January 21, 2011

The Honourable Pat Bell
Minister of Forests, Mines and Lands
Province of British Columbia

Dear Minister Bell:

I am pleased to present you with the *Forestry Innovation Investment Ltd. Service Plan 2011/12 – 2013/14*. This plan sets out the corporation's goals and objectives, the strategies it will use to attain them, and the performance measures and targets for the next three years.

As the forest industry throughout North America and Europe continues to suffer through one of the worst downturns ever, I am pleased to report that the financial impacts in British Columbia are being substantially mitigated by lumber exports to China, which continue to rise dramatically. The demand in China is not only providing a home for an ever larger portion of our industry's production, but is also estimated to be elevating lumber prices as much as 25 percent above where they would otherwise be.

FII's focus continues to evolve in response to the annual *Shareholder's Letter of Expectations*, changing circumstances in the market place, and increased understanding of where the best market potential lies. Core elements continue to include promotion of wood frame construction in China, Korea, and the non-residential sector in the United States, Japan and B.C.; B.C. hemfir, spruce-pine-fir lumber, and oriented strand board in Japanese housing; value-added products in North America and Japan; B.C. species for landscaping in China, Japan and Korea; western red cedar products in North America; and specialty wood products (particularly western red cedar and Douglas-fir) in the European Union, Australia and New Zealand. Where new export opportunities emerge, such as in the area of bio-fuels, FII will work in concert with industry, the B.C. Ministry of Tourism, Trade and Investment, and the federal government to develop these new markets for the benefit of the B.C. forest sector.

Over the coming three years, FII intends to continue giving the highest priority to creating new demand in China in order to lock in a fundamental shift in the market for B.C. lumber producers. Fundamentally this involves lessening the historical overwhelming reliance on the U.S. housing sector as the customer base for B.C. firms. Subject to pending approval by Chinese authorities, FII's subsidiary company in China is being led by a new Board of Directors, who will also heavily influence programs delivered by B.C.'s trade associations. At the same time, a high priority will be placed on convincing North American architects, developers, builders and building owners that it is environmentally and economically better to build non-residential structures with wood, than steel or concrete.

FII will continue to leverage the offshore trade and investment offices operated by the Ministry of Tourism, Trade and Investment, as well as collaborate with the Ministry to ensure that efforts to position the B.C. brand in international markets are aligned.

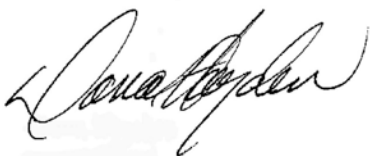
FII anticipates shifting priorities to emphasize building demand for new products and applications, especially wood frame housing in China. As in the past, about half of FII's budget will be used to support activities delivered by non-profit trade associations, research institutes, and universities. Natural Resources Canada (NRCan) has been a major contributor to those activities through its Canada Wood Export Program and its North American Wood First Initiative. Renewal of both programs after their currently scheduled end in March 2011 will be critical because FII relies so heavily on trade associations to design and deliver market development programs, and they in turn rely heavily on funding not only from their members and FII, but also from NRCan.

Closer to home, FII continues to support the implementation of the government's Wood First objectives. The new Wood Enterprise Coalition is an important factor in these efforts, through which experts in the BC Wood Specialties Group, FPIInnovations and the Canadian Wood Council are working collaboratively to encourage a wood culture in B.C. and to expand the use and application of wood products in public and commercial construction in B.C. FII anticipates that the Wood Enterprise Coalition will continue to expand its focus and broaden the suite of programs and activities it coordinates to support Wood First implementation in B.C.

Across all markets and product lines, FII staff will ensure customers have factual, credible information about our province's forest management and about the environmental benefits of using B.C. forest products. Staff are particularly engaged in the "green building" movement that has grown beyond its roots in the United States.

Through the dedication and commitment of its employees, FII continuously strives to be a highly effective and well-managed organization that makes a strong contribution to the success of the B.C. forest industry and by extension, the province. Achievement of the sales targets set in this plan will depend not only on the efforts of FII and its funding recipients, but also ultimately on the desire of B.C. firms to diversify away from reliance on the U.S. housing sector, and their ability to be competitive in the face of strong international competition.

The *2011/12 - 2013/14 Forestry Innovation Investment 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 what has been included in the plan and how it has been reported. All significant assumptions, policy decisions, events and identified risks as of December 15, 2010 have been considered in preparing the plan. The performance measures presented are consistent with the mandate and goals of Forestry Innovation Investment Ltd., and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of Forestry Innovation Investment's operating environment, forecast conditions, risk assessment, and past performance.



Dana Hayden
Chair, Board of Directors

Organizational Overview

Nearly two-thirds of B.C.'s land base is forest and more than 40% of the province's regional economies are based on forestry activities, supporting 173,000 jobs in more than 7,300 businesses. While sectors like energy and high technology have grown in importance, forestry remains British Columbia's largest manufacturing sector.

In any given year, about 80% of forestry output is sold on international markets, making B.C. one of the world's largest suppliers of forest products.

Working with industry to develop, diversify and grow these markets is a major commitment of the Province, with most of these efforts channelled through Forestry Innovation Investment, the B.C. government's marketing agency for forestry products.

Enabling legislation and mandate

FII was incorporated under the *Business Corporations Act* on March 31, 2003. As documented later in this report, the most recent *Shareholder's Letter of Expectations* from the then Minister of Forests and Range in October 2010 updated FII's mandate to:

- work with the forest industry to promote B.C.'s forest products and forest management practices around the world with an emphasis on developing and diversifying geographic markets and specific market segments, such as in Asia and the non-residential sector in North America;
- position British Columbia as a global supplier of world-class, environmentally friendly forest products;
- help break down non-tariff trade and market barriers to sales of B.C. forest products in foreign markets; and
- help ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.

Vision, Mission and Values

FII's vision, mission and values reflect its mandate as the forest products marketing agency of the provincial government:

Vision: Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of environmentally superior products from sustainably managed forests.

Mission: FII's mission is to be an innovative and collaborative forest marketing agency that anticipates and meets the needs of government, the B.C. forest sector, and international markets through well balanced investments that maximize the value to British Columbia.

Values:

Focus on partnerships – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner.

Innovation – FII encourages innovative programs and responses to changing circumstances. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources.

Integrity and Credibility – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful.

Investments based on knowledge and excellence – FII strives for transparent decision-making and investment processes based on research.

Core business areas

FII is organized into business units that reflect the organizational focus on international marketing and communication activities:

FORESTRY INNOVATION INVESTMENT		
MARKET INITIATIVES AND OUTREACH	CORPORATE SERVICES	CHINA SUBSIDIARY
Work with industry trade associations to develop markets for B.C. forest products	Ensure financial reporting to Government standards	Partner with industry in developing China market for B.C. forest products
Keep foreign markets open to B.C. forest products	Oversee budget planning and controls	Act as liaison between B.C. government and industry and Chinese officials
Promote wood as a green building material	Provide HR, IT and office services to meet organizational needs	Design and deliver demonstration projects
Ensure markets are aware of B.C.'s sustainable forest practices and high environmental standards		Undertake market research and manage forestry trade missions
Research international markets and identify opportunities for sales growth of B.C. forest products		

A significant change is underway in that a Board of Directors composed primarily of senior forest industry executives was appointed in May, 2010 to govern the subsidiary company in China. The FII China board reports to the FII corporate Board of Directors, and will take full effect once the change has been approved by Chinese authorities. See the Governance section of this report for more details on the change.

Following its establishment, the China Board initiated a strategic planning and budgeting review. Preliminary input from this exercise is incorporated into the performance measures and projected budget outlined later in this report.

Benefits to British Columbia

FII benefits the people and economy of British Columbia by:

- working to maintain existing markets for B.C. forest products, and as a result, supporting forestry jobs in resource communities, in collaboration with the forest sector;
- opening up new markets for B.C. forest products and creating the potential for new jobs to service these markets;
- building awareness of B.C. internationally, particularly in the Asia-Pacific region, which helps strengthen and grow trade ties; and
- supporting the growth of a sustainable and green economy by promoting the environmental benefits of wood in structural and non-structural applications and greater use of renewable wood products from B.C.

Service delivery

FII is both a funding agency for market initiatives and a direct provider of market development services on behalf of the Government of B.C..

As a funding agency, FII provides funds to support the market development activities of trade associations in key markets. Each year, FII publishes an annual investment strategy to articulate the company's funding objectives, based on priorities set by the provincial government and input received from the forest industry. The key elements of this service delivery model are:

- trade associations deliver the bulk of market development initiatives with funding support from their members, FII, and the federal government;
- funding support is based on a cost-sharing schedule approved by the provincial government;
- funding priorities are based on industry feedback and detailed market analysis, and are documented in the Investment Strategy;
- funding is based on a balanced portfolio of investments, managed through a rigorous performance management framework, that reflects industry and government priorities and market opportunities and threats;
- funding and management are integrated with related government programs to avoid duplication and streamline processes; and
- funding is dispersed in an open, accountable and transparent manner through a public bidding process, financial and accounting controls, and ongoing project monitoring and audits.

About half of FII's budget is directed towards co-funded programs delivered by industry trade associations. These activities are typically funded by FII, Natural Resources Canada through its *Canada Wood Export Program* and its *North American Wood First Initiative*, and the funding recipients themselves.

In 2010/11, FII's \$9.3 million in funding to other organizations is leveraging over \$15.4 million of contributions from industry and the federal government, so that the total value of product and market development activities is approximately \$25 million. While budgets for 2011/12 were not finalized at the time of writing, FII's total market program, including contributions from the federal government and

industry, is anticipated to be approximately \$22 million. This is roughly equivalent to the forecast expenditures for 2010/11, after taking into account the one-time funding for the Wenchuan Earthquake Reconstruction Project.

For 2010/11* the projected cost sharing of the activities delivered by other organizations and to which FII contributed funding is:

FII:	38%
Natural Resources Canada and other government agencies:	42%
B.C. forest industry:	20%

In addition to its role as a co-funder of market development and research activities, FII responds to provincial government priorities by directly delivering a number of marketing initiatives. These government initiatives are designed to provide broad-based benefits to the forest sector but fall outside the mandates of industry associations and other government agencies. They include:

- market outreach communication to explain B.C.'s forest practices and environmental record to international markets;
- market research to unearth potential opportunities and create new market demand in high-risk, emerging markets and segments;
- marketing resources for general use by industry, such as publications on wood as a green building material, and the naturallywood.com web site; and
- market development programming in China, where FII represents the interests of the forest sector and the Government of B.C. in interactions with Chinese authorities.



Castlegar City Hall, Castlegar, B.C.



Vancouver Pavilion, Expo 2010, Shanghai, China

* Cost-share percentages for 2011/12 are subject to final budget allocations, which were not available at the time of writing.

Principal partners, clients and stakeholders

FII collaborates with the following provincial, federal, industry and interested parties.

ORGANIZATION	RELATIONSHIP
Government	
Government of British Columbia	Sole shareholder, provides FII's core funding
Minister of Forests, Mines and Lands	Minister responsible for FII
Ministry of Tourism, Trade and Investment	Co-ordinator of international economic development, trade, and investment initiatives
Department of Foreign Affairs and International Trade, Government of Canada	Federal agency supporting in-market trade and investment promotion and, in China, representing the Government of Canada in the Canada-B.C. Wenchuan Earthquake Reconstruction Project
Department of Natural Resources, Government of Canada	Federal funding agency for international marketing programs through the <i>Canada Wood Export Program (CWEP)</i> and the <i>North American Wood First Initiative</i>
Western Economic Diversification Canada	Provides funding for the Business Innovation Program
Other	
B.C. forest industry associations: <ul style="list-style-type: none"> • APA – The Engineered Wood Association • BC First Nations Forestry Council • BC Wood Specialties Group • Canada Wood Group • Canadian Wood Council – WoodWORKS! BC • Coast Forest Products Association • Council of Forest Industries • Western Red Cedar Export Association • Western Red Cedar Lumber Association • Wood Products Council 	Funding recipients that initiate and deliver domestic and international marketing programs and that may also receive funding from Natural Resources Canada and/or other partner organizations
Post-secondary and research institutions: <ul style="list-style-type: none"> • University of British Columbia • British Columbia Institute of Technology • FPInnovations (Forintek, FERIC and Paprican Divisions) 	Partners and/or funding recipients that initiate and deliver product development and technical research, and overseas training programs to build local capacity in wood frame construction
<ul style="list-style-type: none"> • Forest Products Association of Canada • Department of Natural Resources, Government of Canada • Department of Foreign Affairs and International Trade, Government of Canada • FPInnovations (Forintek Division) • B.C. Forestry Climate Change Working Group • Sustainable Building Coalition 	Partners in developing and delivering programs promoting B.C.'s sustainable forest practices and the environmental benefits of wood products and the forest sector

In Asia, Canada Wood Group (a partnership of trade associations) leads market development activities in Japan and South Korea, with funding provided by FII, Natural Resources Canada and the associations. Activities involve building relationships with government officials, developers and the building sector, and research institutions on topics related to market access (e.g., acceptability of B.C. species and grades in local building and fire codes), market development (marketing and promotion) and related issues.

In China, FII and Canada Wood Group collaborate on market research, marketing, government relations, demonstration buildings, quality assurance and training. Key relationships are maintained with government agencies, the architectural faculties of several universities, developers and builders.

In the United States, trade associations, including the Wood Products Council, Western Red Cedar Lumber Association, and B.C. Wood Specialties Group lead market development activities funded by FII and industry. Activities focus on niche markets in the residential construction and related sectors as well as the emerging market for wood in the non-residential sector.

In other markets, trade associations lead market development activities funded by FII, Natural Resources Canada and industry. Activities focus on market development and market access.

Corporate locations

The FII corporate office is located at:

#1200 - 1130 West Pender Street, Vancouver, British Columbia.

The company's China subsidiary, FII Consulting (Shanghai) Co, Ltd. office is located at:

425 Hong Feng Road, Jinqiao, Pudong New Area, Shanghai, P.R. China 201206

FII Consulting (Shanghai) also operates a small satellite office in Beijing located at:

Room 1507, Kuntai International Mansion, No.12 B Chaowai Street, Beijing 100020.

More information on FII is available at www.bcfii.ca. General information on B.C.'s high-quality forest products and sustainably managed forests is available at www.naturallywood.com.

Corporate Governance

Board of Directors

The three-member Board of Directors is accountable to the Minister of Forests, Mines and Lands:

- Dana Hayden, Deputy Minister of Forests, Mines and Lands (Chair);
- Martyn Brown, Deputy Minister of Tourism, Trade and Investment; and
- Lori Wanamaker, Deputy Minister, Ministry of Public Safety and Solicitor General.

The Board appoints the Chief Executive Officer and oversees FII's priorities, strategies, and policies.

The Board's Audit Committee is responsible for reviewing, recommending, and in some instances, approving financial statements and other information. The Audit Committee has three positions. Two are filled by Lori Wanamaker and John Desjardins, Partner, KPMG. One position is currently vacant.

Reflecting the growing importance of China as an export market, and the large share of the FII budget directed towards activities in China, in 2010/11 the corporate Board established a subsidiary Board of Directors for FII China operations.[†] The FII China Board is responsible for overseeing the budget, business direction, and management of FII Consulting (Shanghai) Co. Ltd. The Board members are:

- Don Kayne Vice President, Wood Products Marketing and Sales, Canfor (Chair);
- Don Demens, Senior Vice President, Western Forest Products Inc.;
- Steven Hofer, General Manager, Sales and Marketing, Interfor;
- John Langley, Manager, Export Sales, Tolko Industries Ltd.;
- Chris McIver, Vice President, Lumber Sales and Corporate Development, West Fraser Timber Company Ltd.;
- Glen Wilson, President, Interex Forest Products Ltd.; and
- Ken Baker, CEO, Forestry Innovation Investment.

Governance principles and practices

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

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

Details about how the guiding principles are applied are posted on FII's website at:

http://www.bcfii.ca/about_fii/corporate_governance.htm.

[†] At the time of writing, FII was awaiting Chinese regulatory approval of the new Board.

FII is substantially in accordance with governance best practices published by the Board Resourcing and Development Office. A detailed disclosure of concurrence is posted on FII's website at http://www.bcfii.ca/about_fii/corporate_governance.htm.

Industry Advisory Committees

Four committees of senior forest industry staff provide continuing advice to FII:

- the Strategy Committee offers strategic direction on all of FII's programming, investments and market development goals;
- the Market Acceptance Advisory Group offers strategic direction on FII's Market Outreach programming;
- the Business Innovation Program (BIP) Advisory Committee offers strategic direction to FII on BIP priorities and program services; and
- The Proposal Evaluation Panel evaluates funding proposals received through FII's annual call for proposals process.

FII executive management

- Ken Baker, CEO
- Doug Greig, Vice President, Finance and Administration
- Mike Hogan, Vice President, China Operations
- Michael Loseth, Vice President, Operations

Subsidiary company

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

Primary business: Government-to-government relations, demonstration projects and market research.

Objective: Create new commercial opportunities for the B.C forest industry, especially by introducing wood frame building technology to China.

Governance: In transition from a sole Executive Director (Ken Baker) to a Board of Directors reporting to the FII Board of Directors. The transition will be complete when Chinese authorities approve the change.

Financial information: See the Summary Financial Outlook.

Strategic Context

Internal operating environment

FII operations in B.C. in 2010/11 were unchanged from 2009/10 in terms of structure and emphasis, but the scope of FII’s direct-delivered activities was reduced as budget was shifted to industry-delivered programs and the FII China operation.

As of the start of the fourth quarter of 2010/11, the new Board of Directors for the China subsidiary had not made any substantive changes to the operations or budget in China. The Board is undertaking a strategic planning and budget review that will provide guidance for the China program in 2011/12.

FII and its China subsidiary both rely heavily on consultants and contractors to deliver specific projects. This has been especially critical in the Canada – B.C. Wenchuan Earthquake Reconstruction project, the Vancouver Pavilion at EXPO 2010 and other demonstration projects in China. The flexibility inherent in these arrangements will allow management to quickly adapt to any changes invoked by the new China Board.

Economic and Industry Factors

SITUATION	FII RESPONSE																																				
United States market demand																																					
<ul style="list-style-type: none"> Historically the B.C. lumber industry’s customer base has been overwhelmingly skewed to the United States residential construction sector, creating a “boom and bust” cycle, as occurred in 2007 when U.S. demand collapsed. Demand in the U.S. market has yet to recover. B.C. lumber exports in the first 8 months of 2010 were up about 25% by value over the same period of 2009, but still trail the levels of 2008. 	<ul style="list-style-type: none"> A key objective of FII is to diversify the long-term demand for B.C. wood products, reducing the sector’s dependence on the U.S. residential market. To support this objective, FII’s efforts have focused on building new demand in targeted offshore markets, particularly China, South Korea and Japan. Results to-date have been positive. Since 2005, offshore exports as a percentage of total B.C. exports have grown from less than 15% to more than 32% in 2009. In addition to boosting demand offshore, FII is working to diversify demand within the U.S. through targeted investments to encourage the greater adoption of wood products in the huge non-residential construction market. This emphasis on the U.S. non-residential sector will continue in 2011/12. 																																				
<p>Softwood Lumber: Offshore Markets Provide Vital Diversification for B.C.</p> <table border="1"> <caption>Softwood Lumber: Offshore Markets Provide Vital Diversification for B.C.</caption> <thead> <tr> <th>Year</th> <th>B.C. Softwood Lumber Exports Offshore (Million m³)</th> <th>Offshore Exports as % of Total B.C. Exports</th> </tr> </thead> <tbody> <tr><td>1999</td><td>5.5</td><td>15%</td></tr> <tr><td>2000</td><td>5.5</td><td>18%</td></tr> <tr><td>2001</td><td>4.8</td><td>15%</td></tr> <tr><td>2002</td><td>4.8</td><td>15%</td></tr> <tr><td>2003</td><td>5.0</td><td>15%</td></tr> <tr><td>2004</td><td>5.5</td><td>15%</td></tr> <tr><td>2005</td><td>4.5</td><td>12%</td></tr> <tr><td>2006</td><td>5.2</td><td>15%</td></tr> <tr><td>2007</td><td>5.3</td><td>18%</td></tr> <tr><td>2008</td><td>5.5</td><td>25%</td></tr> <tr><td>2009</td><td>6.0</td><td>32%</td></tr> </tbody> </table>		Year	B.C. Softwood Lumber Exports Offshore (Million m ³)	Offshore Exports as % of Total B.C. Exports	1999	5.5	15%	2000	5.5	18%	2001	4.8	15%	2002	4.8	15%	2003	5.0	15%	2004	5.5	15%	2005	4.5	12%	2006	5.2	15%	2007	5.3	18%	2008	5.5	25%	2009	6.0	32%
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SITUATION	FII RESPONSE
China and Asian market demand	
<ul style="list-style-type: none"> • Total B.C. lumber exports to China in 2009 were double those of 2008 and exports to China in the first eight months of 2010 were some 50% greater than in the same period in the previous year. • China and other countries in Asia offer significant opportunities to diversify sales away from the United States due to their faster rebound from the global downturn, greater prospects for economic growth, and lower baseline levels of wood consumption. 	<ul style="list-style-type: none"> • FII plays a major role in the Province's economic development programs in Asia, most notably through its wholly owned subsidiary in China, and through funding the private sector's market development work in China, South Korea and Japan. • In support of the goal to expand and diversify markets, FII currently invests over 70% of country-specific market development funds in Asian markets, with almost 60% going to China-based activities. • In 2010/11 FII has continued to accelerate its market development program in China. Through a series of demonstration projects, FII, together with its partners in the Canada Wood Group, is proving wood frame structures to be cost-effective alternative to concrete and steel construction. • In 2011/12, FII expects to complete the final projects under the \$8 million Canada – B.C. Wenchuan Earthquake Reconstruction initiative to rebuild public facilities in the area of China devastated by the May 2008 earthquake. FII will also focus on a series of new initiatives and demonstrations, including an affordable housing demonstration in Shanghai, the building of a 4-5 storey wood frame demonstration project in Tianjin in collaboration with the Chinese Ministry of Housing and Urban-Rural Development, and a multi-storey demonstration initiative in Hebei Province



Forests, Mines and Lands Minister Pat Bell shakes hands with Tianjin-New Binhai area (China) official after signing a Memorandum of Understanding between Canada, B.C. and Tianjin-New Binhai area to advance modern wood-frame construction for its environmental benefits. November 2, 2010.

A trade mission to China in November, 2010 set record sales of 418 million board feet of lumber. A highlight of the mission was a ground breaking ceremony for construction of three wood-frame demonstration buildings near Beijing. Demonstration buildings are a key element of the China marketing program as they show how B.C. lumber and building systems can be adapted to local needs.

China is the fastest growing export market for B.C. forest products. To the end of October, 2010, exports had increased two thirds over sales in the same period of 2009.

SITUATION	FII RESPONSE
Coastal forest sector	
<ul style="list-style-type: none"> On the Coast, hemlock and amabilis fir (hemfir) are the dominant species, with unique inherent features but subject to typically high operating costs in harvesting and manufacturing. Market demand for hemfir has not been strong enough alone to make the Coast industry broadly profitable. Cedar from the Coast remains an important species, with stronger markets and returns for the industry 	<ul style="list-style-type: none"> In 2010/11, FII has continued its funding support for priority segments of the Coastal industry. Specifically, FII is co-funding market development projects focused on improving market share for hemfir in China and Japan. For 2011/12, FII plans to continue funding western red cedar promotion in Asia, North America, Europe and Oceania. Further, FII is encouraging product development efforts to find new and innovative uses for second-growth hemfir, such as in the production of cross laminated timber. These efforts support the goal of expanding and diversifying international markets.
Interior forest sector/Mountain Pine Beetle	
<ul style="list-style-type: none"> The Mountain Pine Beetle epidemic continues to impact fibre supply and timber quality. As the epidemic reduces the availability of pine, the mix of the Interior harvest will shift more towards spruce and fir with potential consequences for solid wood, engineered wood, and pulp and paper products. 	<ul style="list-style-type: none"> Significant research and market access work has been completed on MPB fibre, its characteristics and applications over the past 5 years. The industry continues to use MPB fibre for dimension lumber and existing product lines, with market access activities ensuring continued access to priority markets. FII's Investment Strategy highlights the need to analyze the impact of the shifting species mix on the Interior industry. Moving forward, FII will continue to support the Interior industry in its efforts to develop and expand markets for SPF products. Considerable success is being achieved in China, where the industry has developed a market for significant volumes of MPB wood products, as well as in Korea where customers accept MPB wood for construction grade applications. Similarly, programs continue to develop opportunities for wood in the U.S. Non-residential sector – which also accepts MPB products for structural applications.
Product Development	
<ul style="list-style-type: none"> The global market for wood products, both structural and finished goods, is increasingly competitive. Ensuring that B.C. products remain at the leading edge of innovation is critical for the future of the forest sector. 	<ul style="list-style-type: none"> FII is working with partners in industry, the federal government and the research community to support product development and technical research aimed at identifying new products and process for a global market. In 2010/11, FII budgeted approximately \$500,000 for product development and technical research, with projects agreed upon by FII and the Ministry of Forests, Mines and Lands. In 2011/12, FII plans to continue funding product development and technical research.
Secondary manufacturing	
<ul style="list-style-type: none"> The secondary manufacturing sector is in the midst of a significant downturn in market demand and faces the added threat of competition from low-cost Asian manufacturers. 	<ul style="list-style-type: none"> Through the Business Innovation Program, FII is providing dedicated funding to strengthen the competitiveness of the secondary manufacturing sector. To ensure it meets industry needs, the program is guided by an industry advisory committee. \$691,461 was directed to marketing activities by BC Wood Specialties Group, which represents the majority of value-added firms in B.C. In 2011/12 FII plans to continue to work with NRCan and other funding partners to ensure approximately the same level of support for value added secondary manufacturing.

Wood First and the Non-residential sector

- Wood-frame construction is the preferred choice for residential housing across North America, however most commercial, recreational and institutional buildings are built of concrete and steel.
- Advanced wood design and technologies, coupled with rising costs of producing cement and steel, are beginning to make wood a practical and more cost-effective solution.
- In March 2009 the Ministry of Forests and Range launched its Wood First initiative to establish B.C. as a world leader in innovative and higher-value uses for wood.
- In April 2009, the BC building code was amended to allow 6 storey wood construction, thus expanding the opportunity to use wood in mid-rise construction.
- FII is now funding a major program delivered by the Wood Products Council in three regions of the United States, promoting adoption of wood-based technologies in the non-residential sector. This program remains a priority for FII funding in 2011/12
- In 2011/12, FII will continue to actively promote the 2010 Olympic Games venues, such as the Richmond Olympic Oval and the Vancouver Trade and Convention Center as examples of advanced wood technology in the non-residential sector. Emphasis will be on Canadian and U.S. markets.
- FII provided seed funding to the Wood Enterprise Coalition (WEC), a partnership of FPInnovations, BC Wood Specialties Group and the Canadian Wood Council's WoodWORKS! BC program. These organizations represent a key part of the implementation of Government's Wood First objectives. In 2011/12, FII will continue to work closely with the Ministry of Forests, Mines and Lands and the Wood Enterprise Coalition in the implementation of the Province's Wood First objectives. Specifically, FII will provide funding for technical assistance and information delivered through the WEC.
- FII will also be funding technical research and strategic coordination activities aimed at successfully implementing Cross Laminated Timber construction in B.C. and North America. CLT technology offers a promising opportunity for wood to be used in larger and more complex buildings, further competing with concrete and steel.

Green building, forests and climate change

- While people remain generally sensitive to how forests are managed, this has been superseded by the general concern about climate change and global warming.
- Making new buildings more environmentally friendly is one of the most significant trends in the construction industry, not only in North America but also in Europe and Asia.
- FII is working with other government agencies and the forest industry to strengthen the image of wood as the most environmentally-friendly building material, and the role of forest management in mitigating global warming.
- FII represents B.C.'s interest in working closely with the federal government and Canada's embassies and consulates to address international governments' procurement policies and their recognition of forest products from legally harvested and sustainably-managed forests.
- FII's Market Outreach materials are continuously updated to respond to any concerns about B.C.'s forest practices.
- In 2011/12, FII will continue work with national and North American partners to focus communications efforts to raise awareness of wood's benefits and encourage architect and policymaker preference for wood as a building material, particularly in relation to non-residential applications. FII will continue to advocate for B.C. as a preferred supplier of forest products in relation to non-tariff trade barriers such as building rating systems and codes, as well as international markets' recognition of B.C. as a reliable and legal supplier of forest products.
- These activities support international recognition of B.C. as the leading supplier of environmentally-friendly forest products.

Risk and capacity issues

Economic and market factors

A significant part of FII's mandate involves international market development. The ability to achieve performance targets linked to this portion of the mandate can be significantly influenced by factors falling beyond the ability of either FII, or industry, to directly influence. These include:

- **Currency exchange rates:** The value of the Canadian dollar is a major determinant of the international competitiveness of B.C. forest products (and industry profitability). The dollar is currently tracking near parity with the U.S. dollar. Since wood exports are priced in U.S. dollars, the increased value of the Canadian dollar is having a negative impact on competitiveness.
- **Energy prices:** Oil prices are trending higher as the global economic recovery continues, and there are concerns that these higher prices could stall the recovery. Also, as the value of the Canadian dollar is closely tied to the world price for oil, higher energy costs could hurt the B.C. forest sector through weaker U.S. demand and a higher valued Canadian dollar.
- **Transportation:** The Canadian forest products industry has enjoyed low-cost "back haul" rates on containers being shipped from the west coast of North America to China. The dramatic increase in B.C. lumber exports to China, however, has led to capacity issues in the transportation system and, as a consequence, rapidly escalating container costs.
- **In-market factors:** Conditions within any market may vary from those discussed previously due to fiscal, political, monetary and regional economic factors. For example, the reduction in stimulus spending in western economies may weaken job creation, leading to lower consumer spending and weaker demand for new housing; tax and trade policies of other countries can directly influence the demand for B.C. wood products (e.g., shifting Russian log export taxes and their impact on Chinese purchasing decisions); and demographic shifts in regional markets can place downward (or upward) pressure on the demand for housing and, consequently, wood.

Government appropriations

- **Canada:** Federal funding for the Canada Wood Export Program and the North America Wood First Initiative is committed to the end of fiscal 2010/11, but is not yet in place for 2011/12. FII and the B.C. industry have been urging the federal government to renew its programs well in advance so that program continuity is not disrupted. Contingency planning is underway to ensure the continuation, albeit at a much reduced scale, of core market development programming in the unlikely event that federal funding is not renewed.
- **British Columbia:** The continuity of FII's investments in market development, product development and market communications, as well as the continuation of the China program, depend on consistent funding from the Province of B.C.

Industry financial capacity

The severe downturn in the forest industry tightened trade association budgets, which are based on fees from member companies. As a result, the capacity of associations to share the cost of international marketing programs has been constrained. Carrying a higher share of total costs means that FII has had to reduce the scope of its funding, impacting the budgets of individual programs. As associations become able to absorb increased market development costs, funding pressure may be relieved.

Goals, Key Strategies, Measures and Targets

GOAL 1

EXPANDED MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

Strategies

Develop opportunities in new and existing markets by:

- Supporting trade association market development programs based on the priorities outlined in the annual Investment Strategy
- Operating a subsidiary in China focused on government liaison, market research and demonstration projects in support of industry market development efforts
- Making B.C. a leader in wood use and innovation by supporting the government's Wood First initiative
- Positioning B.C. wood products as preferred building materials and wood as a green building material.

Performance Measures

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

GOAL 2

INTERNATIONAL RECOGNITION OF B.C. AS THE LEADING SUPPLIER OF ENVIRONMENTALLY SUPERIOR FOREST PRODUCTS

Strategies

- Advocate for continued international market access in relation to forestry and environmental factors
- Champion science-based approaches to documenting the environmental merits of BC forest products
- Position BC as a world leader in sustainable forest management and forest product manufacturing

Performance Measures

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

GOAL 3

FII IS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

Strategies

- Ensure FII is efficient, transparent and results focused
- Ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector's economic and social benefits to British Columbia
- Minimize the organization's carbon footprint and promote environmentally responsible business activities

Performance Measures

- Timeliness of annual funding cycle for trade associations, research institutes, and universities

GOAL 1

EXPANDED MARKET OPPORTUNITIES, EMPHASIZING A DRAMATIC INCREASE IN FOREST PRODUCT EXPORTS TO CHINA AND THE REST OF ASIA

Goal 1 reflects FII’s basic mandate. Three objectives guide the strategies related to this goal:

- finding and building markets for B.C. wood products by diversifying into new geographic regions, with a special focus on China;
- building opportunities in emerging segments (e.g., the non-residential sector);
- maintaining market share and presence in major existing markets, such as the United States and Japan; and
- developing new products and specialty niche markets.

Growing Asian markets

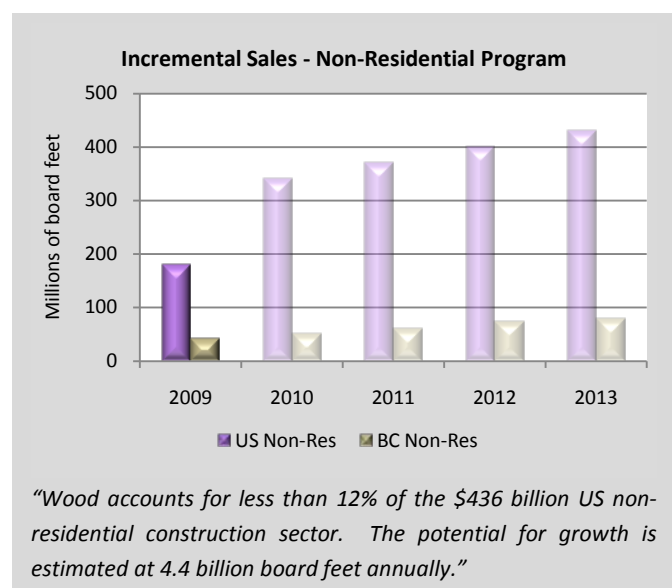
2011/12 strategies are putting increasing emphasis on Asia, with a focus on the fast-growing China market. This builds on a growing interest in B.C. wood products and building technologies among major Chinese developers, an increased emphasis on green development, and new national and local building codes that support wood construction. Of note in 2011/12 will be the efforts to work more closely with China’s major builders and developers. Continued expansion of the China market is key to decreasing the BC forest sector’s reliance on the U.S. residential market.



Promoting wood first

Capturing a bigger share (volume and value) of the vast non-residential construction sector in North America is a priority for 2011/12. FII investments will focus on the Wood Products Council (U.S. non-residential program) and the Wood Enterprise Coalition (B.C. non-residential program), both of which are projecting solid growth across the period to 2013/14.

In support of the B.C. Wood First policy, FII will continue to invest in initiatives to build capacity in the value-added sector and to fund product development and technical research to ensure that B.C. products remain globally competitive.

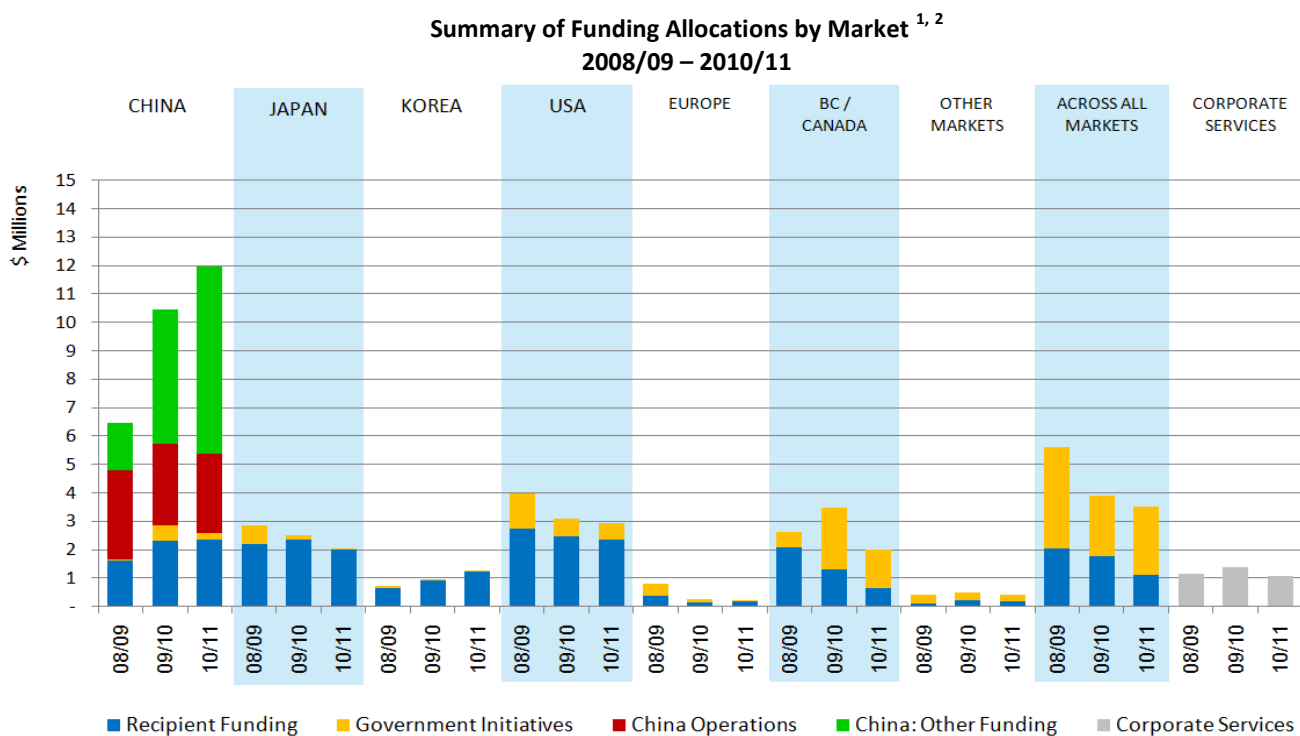


To monitor progress, FII tracks sales of B.C. wood products in major markets as key performance indicators reflecting industry growth and competitiveness.

A summary of B.C. exports, import shares and consumption shares, as well as the latest monthly sales reports and historical data on exports are available at:

www.bcfii.ca/industry_resources/market_research.htm

The primary approach for achieving Goal 1 is to provide funding for marketing programs initiated and delivered by industry trade associations. Each year, roughly half of FII’s budget is directed towards these activities. With the exception of China, where FII’s subsidiary company collaborates with industry in the delivery of market development programs, the majority of spending in foreign markets is through the activities of trade associations. Reflecting the objective to find, build and diversify market demand, funding is directed across new and existing markets as illustrated in the following graph



While budget allocations for the 2011/12 year were not available at the time of writing, FII anticipates additional resources being directed to support the priority being placed on China market development.

¹ Market allocations are based, in part, on a review of funding proposals undertaken in the January – March period. As such, market allocations for 2011/12 were not available at the time of writing.

² ‘Government Initiatives’ refers to funding for product and market development activities managed directly by FII, including market research, market outreach and demonstration projects.

‘Recipient Funding’ refers to funding provided to industry associations and other groups to carry out market development activities that they propose. “Recipient Funding” also includes funding for the Business Innovation Partnership. Amounts include associated program administration.

‘China Operations’ refers to activities directly managed by FII Consulting (Shanghai) Co. Ltd.

‘China: Other Funding’ refers to funding provided by the B.C. Ministry of Small Business, Technology and Economic Development, the federal government (Natural Resources Canada) and other agencies. For 2010/11, amount includes \$1.3 million from deferred revenue.

‘Corporate Support’ refers to FII’s accounting and general office functions that support all program delivery.

The strategies to achieve Goal 1 are to:

1. support trade association market development programs based on the priorities outlined in the annual Investment Strategy;
2. operate a subsidiary in China focused on government liaison, market research and demonstration projects in support of industry market development efforts;
3. make B.C. a leader in wood use and innovation by supporting the government's *Wood First* initiative; and
4. Position B.C. wood products as preferred building materials and wood as a green building material.

Performance Measure		2009/10 Actual	2010/11 Forecast	Target		
				2011/12	2012/13	2013/14
A	B.C. Softwood Lumber Exports to Priority Asia Pacific Markets (000's of m3) ³	4,725	6,268	8,868	9,604	10,322
	<i>Consisting of:</i>					
	<i>China</i>	2,589	3,700	6,300 ⁶	7,900	9,500
	<i>Japan</i> ⁴	1,986	2,400	2,400	2,400	2,400
	<i>S. Korea</i> ⁵	150	168	186	204	222
B	Incremental Sales Generated in U.S. Non-Residential Market (millions of board feet)	180	340	370	400	430
C	Incremental Sales Generated in the B.C. Non-Residential Market (millions of board feet)	43	52	62	75	80

Importance of measures

Performance Measure A tracks the extent to which the B.C. forest industry shifts its reliance away from the United States, and continues to sell to Asia customers even when demand rebounds in the United States. This is a measure of long-term diversity of the customer base, and greater overall demand. The figures are based on Statistics Canada export data.

The outcome tracked by Performance Measure A is heavily weighted to experience in China, where a particularly large share of FII investments are leveraging joint industry and government (provincial and federal) market development efforts.

³ Performance Measure A is broadly influenced by global economic conditions beyond the control or direct influence of FII or the provincial government (refer to discussion under "Risks and capacity issues"); however, export data provide a helpful indicator of overall progress by FII and its funding recipients in fostering market diversification.

⁴ It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now often exported from B.C. to China, manufactured into value-added products, and re-exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

⁵ Lumber consumed in structural applications (residential, non-residential and additions).

⁶ 6.3 million m³ converts to approximately 4 billion board feet (volume target for China per the current Shareholder's Letter of Expectations for FII) using a net cubic meter to board foot factor of .628.

Performance Measure B tracks success in introducing wood frame technology to the non-residential construction sector in the United States as a way of lessening the B.C. industry's overwhelming reliance on U.S. residential construction. The U.S. program figures are based on reports from the Wood Products Council (WPC), which tracks the volume of wood used in U.S. non-residential construction. Figures indicated are incremental wood volumes generated through program activities funded by FII in partnership with the WPC.

Performance Measure C tracks success in increasing wood usage in the B.C. non-residential construction sector, a core objective of the province's Wood First strategy. Figures for B.C. are incremental wood volumes generated through program activities funded by FII in partnership with the Canadian Wood Council.

The ability to achieve Performance Measures A, B, and C is heavily influenced by the performance of the industry market development programs supported by FII. As part of the funding approval process, Performance Measures are set for each project. All of these measures are directly linked to FII's broader goals and target. For more details, see FII's Performance Management Framework at: http://www.bcfii.ca/about_fii/corporate_reports.htm.

Growing Chinese demand for B.C. lumber

In 2003, FII entered a partnership with the forest industry and the federal government to grow sales in China. This effort, which has focused on demonstrating the cost-effectiveness of wood frame systems as an alternate to concrete and steel construction, is proving a remarkable success. In less than seven years, China has grown from \$69 million in sales to become B.C.'s second largest export market with 2010 sales projected at over \$600 million. To maintain this momentum, in 2011/12, FII strategies include:

- investing over half of market development funding in China-based initiatives;
- completing projects under the \$8 million Canada – B.C. Wenchuan Earthquake Reconstruction Initiative to rebuild public facilities devastated in the May 2008 earthquake using wood-frame construction and B.C. wood;
- expanding demonstration projects to include an affordable housing demonstration in Shanghai, a four to five storey project in Tianjin, and a multi-storey demonstration initiative in Hebei; and
- continuing to work with Chinese officials on building codes and regulatory approvals to expand market opportunities for wood frame construction.

"The Chinese market is driving new international demand for B.C. wood products and diversifying sales away from the United States. Exports, by value, are now roughly split between the U.S. and all other markets. As recently as 2007, the U.S. accounted for over 70% of exports."



Dream Home Canada, Shanghai, China

GOAL 2

INTERNATIONAL RECOGNITION OF B.C. AS THE LEADING SUPPLIER OF ENVIRONMENTALLY SUPERIOR FOREST PRODUCTS

Goal 2 reflects the fact that customers around the world are increasingly looking for assurance that forest products are environmentally friendly and come from sustainably managed forests.

The primary objective of Goal 2 is to position B.C. as a global leader in sustaining forest resources and environmental values. The province’s commitment to sustainable forest management is a significant advantage in world markets. As customers are increasingly factoring environmental practices into purchasing decisions, there is also considerable value in articulating the benefits of wood as a sustainable, renewable building material, its advantages in creating a significantly smaller environmental footprint than other building materials, and the fact that wood and pulp and paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint.

The strategies to achieve Goal 2 are to:

1. Advocate for continued international market access in relation to forestry and environmental factors;
2. Champion science-based approaches to documenting the environmental merits of B.C. forest products; and
3. Position B.C. as a world leader in sustainable forest management and forest product manufacturing.

Performance Measure		2009/10 Actual	2010/11 Forecast	Target		
				2011/12	2012/13	2013/14
D	Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	n/a	100%	n/a	90%	n/a

Importance of measures

Performance Measure D tracks the effectiveness of FII’s market outreach initiatives to influence customer views and is measured through a comprehensive bi-annual survey of international customers.

GOAL 3

FII IS A HIGHLY EFFECTIVE, INNOVATIVE AND RESPONSIVE ORGANIZATION

FII is committed to sound business practices incorporating robust financial controls, a performance management framework and a monitoring, audit and evaluation program built on a comprehensive risk-assessment strategy. All of these activities reflect government policies and guidelines. FII is also committed to a path of environmental sustainability in order to protect the natural environment and the B.C. economy for future generations.

The strategies to achieve Goal 3 are to:

1. ensure FII is efficient, transparent and results focused by:
 - Keeping corporate support costs at or below 7% of total budget
 - Implementing a rigorous performance management system
 - Monitoring and auditing funded projects according to explicit risk assessments
2. ensure the integrity and timeliness of funding to other organizations for activities that will enhance the forest sector’s economic and social benefits to British Columbia; and
3. minimize FII’s carbon footprint and promote environmentally responsible business activities.

Performance Measure		2009/10 Actual	2010/11 Forecast	Target		
				2011/12	2012/13	2013/14
E	Timeliness of annual funding cycle for trade associations, research institutes, and universities	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1

Importance of measures

Approximately half of FII’s budget is used to fund activities proposed through an annual Call for Proposals process. This process attracts roughly 70 proposals describing thousands of proposed activities, detailing specific cost estimates and cost sharing. Proposals are peer reviewed and explicitly point ranked against pre-set evaluation criteria. Performance Measure E tracks how efficient FII is in managing the annual funding process, a key objective of which is to ensure that funding is available to successful proponents by the start of each fiscal year.

Corporate environmental responsibility

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

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

Details on the actions being taken in support of the policy are posted at:

http://www.bcfii.ca/about_fii/corporate_reports.htm.



Tree Planting near Tumbler Ridge B.C.



Forest workers near 83 Mile House B.C.

Shareholder’s Letter of Expectations

FII’s current Shareholder’s Letter of Expectations (SLE) was signed by the Minister of Forests and Range in October 2010. The letter states that FII’s mandate is to:

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

In working towards its mandate, the letter directs FII to ensure operations and performance are consistent with the government’s strategic direction, fiscal plan, and applicable policies and regulations. Details on these directives are available at (web link to the corporate reports page at http://www.bcfii.ca/about_fii/corporate_reports.htm.)

The following table summarizes specific direction in the SLE, and the relevant actions by FII:

SLE Direction to FII	Actions Underway or Planned
<p>Focus FII market development activities in the following markets:</p> <p>China</p> <ul style="list-style-type: none"> • Ensure B.C. firms sell 4 billion board feet of lumber by 2011 • Maximize coordination, efficiency and effectiveness of all B.C. led programming in China, including coordinating efforts with Ministry of Tourism, Trade and Investment offices in China • Ensure programs comply with Canadian business practices and Chinese law 	<ul style="list-style-type: none"> • FII has placed a priority on the Chinese market. In 2010/11 approximately 46% of total expenditures managed by FII were focused on market development initiatives in China.⁷ This percentage of spending is projected to increase in 2011/12. • Lumber sales are projected to double in 2010 over 2009 to approximately 2.5 billion board feet. • A Board of Directors to oversee activities in China was created in 2010/11. The Board is now conducting a strategic and budget review to ensure maximum integration with industry efforts. Changes related to this review will be implemented in 2011/12. • FII works closely with the Ministry of Tourism, Trade and Investment and its offices in China with respect to promoting investment in the B.C. forest sector. • FII’s operating structure in China was established based on Canadian and Chinese legal advice to ensure compliance with the requirements of both countries. Business practices reflect accounting standards in both countries and are regularly reviewed to ensure ongoing compliance.

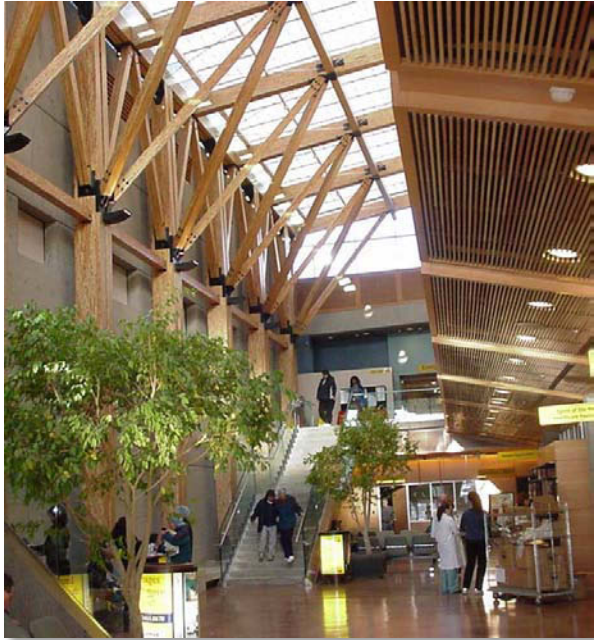
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⁷ Includes a total of \$5.3 million in funding provided by other agencies, but managed by FII (\$3.3 million provided by the Ministry of Small Business, Technology and Economic Development for the Wenchuan Earthquake Reconstruction Project and \$2.0 million from Natural Resources Canada for demonstration work).

SLE Direction to FII	Actions Underway or Planned
<p>Japan, Korea and United States</p> <ul style="list-style-type: none"> • Maintain or increase B.C. share of forest product imports • Work to coordinate efforts with Ministry of Tourism, Trade and Investment offices in each market 	<ul style="list-style-type: none"> • In Japan, Korea and the United States, B.C. market share is projected to be at similar or higher levels in 2010 compared to 2009. • Canada Wood Group, a consortium of industry trade associations, delivers programming in Japan and Korea. FII ensures coordination with other Government of B.C. programs and the Ministry of Tourism, Trade and Investment offices through regular briefings and discussions related to program priorities and initiatives. • Programs in the United States are delivered by individual industry trade associations and consortia targeting specific sectors, such as the non-residential market. In all cases, FII is involved in setting strategic direction and priorities and ensuring coordination with government programs through briefings and updates.
<ul style="list-style-type: none"> • Ensure that market development activities are founded on sound market research. 	<ul style="list-style-type: none"> • FII, Natural Resources Canada and the private sector routinely collaborate to assess country-specific market potential and develop strategies that are typically updated every three years.
<ul style="list-style-type: none"> • Harmonize all market development programs with those of the Government of Canada. 	<ul style="list-style-type: none"> • FII and Natural Resources Canada collaborate closely, along with the private sector, in developing strategies specific to each country. FII and NRCan closely align their policies and processes for making funding available to other organizations, including the use of a common web-based system for accepting proposals, entering into funding agreements, financial and operational reporting, and auditing.
<ul style="list-style-type: none"> • Ensure Asia-related priorities and strategies are consistent with the provincial government's Asia-Pacific Gateway objectives. 	<ul style="list-style-type: none"> • FII will continue to focus on stimulating the export of forest products to China, Japan and Korea, priority markets under the B.C. government's Asia Pacific Initiative. In addition, and in concert with the Ministry Tourism, Trade and Investment and the Ministry of Forests, Mines and Lands, FII plays a supporting role in promoting investment opportunities in the B.C. forest sector.
<ul style="list-style-type: none"> • Promote the development of new technologies and wood products domestically and internationally. 	<ul style="list-style-type: none"> • FII continues to earmark funds for product development by qualified organizations. For 2011/12, FII will be funding technical research aimed at successfully implementing Cross Laminated Timber construction in North America.
<ul style="list-style-type: none"> • Promote the Wood First initiative in B.C. and Canada. 	<ul style="list-style-type: none"> • FII continues to financially support the efforts of the Wood Enterprise Coalition (promotion of wood in non-residential construction) and the Business Innovation Program (capacity building in the value-added sector) on implementation of the Province's Wood First objectives.
<ul style="list-style-type: none"> • Encourage amendment of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System standards regarding wood use to accept all B.C. certified wood products. 	<ul style="list-style-type: none"> • In 2011/12, FII will continue work with national and North American partners to advocate for recognition of the three internationally-recognized certification systems in B.C.

Continued

SLE Direction to FII	Actions Underway or Planned
<ul style="list-style-type: none"> Comply with the Shareholder’s initiatives on climate change and carbon neutrality 	<ul style="list-style-type: none"> FII is in compliance with the Province’s directives on climate change. In 2010 FII began purchasing carbon offsets from the Pacific Carbon Trust to make the organization carbon neutral. This policy will continue in 2011 and subsequent years. FII audited its Vancouver office in 2009 and subsequently made changes to reduce electrical consumption, shift to recycled paper, and undertake other green initiatives. These practices continue as well as participation in energy saving initiatives by the landlord, such as the creation of a Green Team with the support of BC Hydro. Elimination of one position in mid-2010 lead to the cancellation of a car lease and the closing of a satellite office in Quesnel, with a subsequent reduction in the carbon output of the agency. The vast majority of FII’s carbon footprint is produced by the China subsidiary because 80% of Chinese electricity production is coal based. Efforts will continue in 2011/12 to cut electricity consumption at offices in Shanghai and Beijing.



Wood use at Prince George Regional Hospital, Prince George, B.C.



Loading B.C. lumber for export at the Port of Vancouver

Summary Financial Outlook*

Forestry Innovation Investment Ltd Consolidated Summary Financial outlook 2010/11 – 2013/14

	Actual 09/10 (000's)	Projected 10/11 (000's)	Budget 11/12 (000's)	Budget 12/13 (000's)	Budget 13/14 (000's)
Revenue					
Contribution from the Province of BC	\$ 21,636	\$ 18,800	\$ 18,800	\$ 18,800	\$ 18,800
Contribution for Wenchuan Earthquake Reconstruction	\$ 1,847	\$ 3,300	\$ 779	\$ -	\$ -
Contribution for Funded Demonstration Projects	\$ 3,341	\$ 2,051	\$ 2,353	\$ 2,000	\$ -
Transferred from deferred Revenue	\$ 1,439	\$ 1,583	\$ 328	\$ 100	\$ 70
	<u>\$ 28,263</u>	<u>\$ 25,734</u>	<u>\$ 22,260</u>	<u>\$ 20,900</u>	<u>\$ 18,870</u>
Expenses					
Market Development by other organizations ⁽⁵⁾	\$ 11,901	\$ 10,106	\$ 10,040	\$ 10,040	\$ 10,040
China Market Development ⁽¹⁾	\$ 3,815	\$ 2,794	\$ 2,800	\$ 2,800	\$ 2,800
China - Funded Demonstration Projects ⁽³⁾⁽⁴⁾	\$ 3,035	\$ 2,337	\$ 2,353	\$ 2,000	\$ -
Wenchuan Earthquake Reconstruction ⁽²⁾⁽⁶⁾	\$ 1,697	\$ 4,338	\$ 779	\$ -	\$ -
Government Initiatives and Outreach	\$ 5,542	\$ 4,721	\$ 4,918	\$ 4,790	\$ 4,790
Corporate Resources	\$ 1,381	\$ 1,138	\$ 1,170	\$ 1,170	\$ 1,170
	<u>\$ 27,371</u>	<u>\$ 25,434</u>	<u>\$ 22,060</u>	<u>\$ 20,800</u>	<u>\$ 18,800</u>
Operating Income	<u>\$ 892</u>	<u>\$ 300</u>	<u>\$ 200</u>	<u>\$ 100</u>	<u>\$ 70</u>
Amortization	\$ 436	\$ 300	\$ 200	\$ 100	\$ 70
Net Income	<u>\$ 456</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings	<u>\$ 456</u>	<u>\$ 456</u>	<u>\$ 456</u>	<u>\$ 456</u>	<u>\$ 456</u>
Capital Expenditures	<u>\$ 230</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 50</u>

⁽¹⁾ Includes DHC Prepaid lease write off (000's) funding (000's)

⁽²⁾ Includes 09/10 prepaid expenses (000's)

⁽³⁾ Includes 09/10 prepaid expenses (000's)

⁽⁴⁾ Includes MOHURD Projects, Tianjin, Heibei and others not yet determined

⁽⁵⁾ Includes other organization funding for China market development

⁽⁶⁾ Wenchuan Earthquake Reconstruction was co-funded by a one-time contribution of \$8 million from the Province of BC and the Government of Canada

* The above financial information, including forecast information, was prepared based on current Canadian Generally Accepted Accounting Principles (GAAP).

FII Consulting (Shanghai) Company Ltd.
Summary Financial Outlook
2010/11 – 2013/14

	Actual 09/10 (000's)	Projected 10/11 (000's)	Budget 11/12 (000's)	Budget 12/13 (000's)	Budget 13/14 (000's)
Revenue					
Contribution from the Province of BC	\$ 2,812	\$ 2,795	\$ 2,800	\$ 2,800	\$ 2,800
Transferred from deferred Revenue	\$ 1,066	\$ 33	\$ 29	\$ 19	\$ 10
	<u>\$ 3,878</u>	<u>\$ 2,828</u>	<u>\$ 2,829</u>	<u>\$ 2,819</u>	<u>\$ 2,810</u>
Expenses					
China Market Development ⁽¹⁾	\$ 3,815	\$ 2,795	\$ 2,800	\$ 2,800	\$ 2,800
Total Expenses	<u>\$ 3,815</u>	<u>\$ 2,795</u>	<u>\$ 2,800</u>	<u>\$ 2,800</u>	<u>\$ 2,800</u>
Operating Income	<u>\$ 63</u>	<u>\$ 33</u>	<u>\$ 29</u>	<u>\$ 19</u>	<u>\$ 10</u>
Amortization	\$ 63	\$ 33	\$ 29	\$ 19	\$ 10
Net Income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Retained Earnings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Capital Expenditures	<u>\$ 230</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 50</u>
⁽¹⁾ Includes DHC Prepaid lease write off (000's) funding (000's)	\$ 1,003	\$ -	\$ -	\$ -	\$ -

Financial Notes

Risks and assumptions

The continuity of FII's investments, programming and activities continues to depend upon receipt of consistent funds from the Ministry of Forests, Mines and Lands.

FII assumes that industry trade associations, research institutes and universities will continue to propose eligible and acceptable projects for FII funding and that these proposals will make up approximately half of FII's expenditures.

Subsidiary

See the FII financial outlook (previous page). Funding of the company is by way of consulting fee invoices to the parent company in Canada (FII). In accordance with Chinese law, any monthly expenditures made by the company must be offset by enough income to cover the expenditures and applicable Chinese sales taxes, and provide for a profit. The profit margin for the company has been set by FII at approximately two percent of expenditures, excluding demonstration projects. The annual profit is then subject to Chinese corporate income tax at the company's year-end (December 31, as compared to the FII year end of March 31).

Capital expenditures are limited to computer and office equipment and are not material.

Capital initiatives

The capital expenditures projected for the next three years relate to normal replacement of office furniture and computer equipment.

Non-disclosure of information

Consideration of the *Freedom of Information and Protection of Privacy Act* has not caused FII to withhold any information in this Service Plan.

Debt

FII has no debt.

Information

Further information on Forestry Innovation Investment is available at www.bcfii.ca A *Report to Stakeholders* published in June 2010 highlights accomplishments in major markets around the world. Previous Service Plans and Service Plan Annual Reports are available at http://www.bcfii.ca/about_fii/corporate_reports.htm.

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.

Information on FII operations in China is available at www.bcfii.cn/.

Details on the Canada-B.C. Wenchuan Earthquake Reconstruction Project may be found at www.canada-bc-512quakeconstruction.org/.