

# **Forestry Innovation Investment**

**2019/20**

## **Annual Service Plan Report**



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## Board Chair’s Accountability Statement



The *Forestry Innovation Investment 2019/20 Annual Service Plan Report* compares the corporation’s actual results to the expected results identified in the *2019/20 – 2021/22 Service Plan* created in February 2019. The Board is accountable for those results as reported.

A handwritten signature in black ink, appearing to read 'Silas Brownsey', written over a horizontal line.

Silas Brownsey  
Board Chair  
June 24, 2020

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## Letter from the Board Chair & CEO

In 2019/20, the operations of Forestry Innovation Investment (FII), including its goals, strategies, measures and targets, fully aligned with the Government's strategic direction to FII, as set out in the [2019/20 Mandate Letter](#) from the Minister of Jobs, Economic Development and Competitiveness (JEDC).

During the year, FII continued its strategic and proactive engagement with JEDC through meetings between the Minister and coordination between FII's communications and program staff and their counterparts in Government Communications and Public Engagement in both JEDC and the Ministry of Forests, Lands, Natural Resource Operations and Rural Development. Together, these engagements helped ensure continued alignment between FII and JEDC in meeting the obligations established by Government.

The 2019/20 fiscal year was a difficult one for the B.C. forest sector with global lumber prices plummeting, strained geopolitical relations, increasing global competition, domestic supply constraints and the COVID-19 pandemic impacting the sector's performance. Throughout the year, FII maintained continual dialogue with its board members to discuss industry challenges and FII's activities that support the forest sector through this period, including supporting the government in its efforts to advance mass timber use in the province. The Board also directly engaged with FII's Market Priorities Committee, comprised of key players from B.C.'s lumber industry, to hear directly about the issues and priorities that can be addressed/supported through the work of FII and its industry and government partners.

In 2019, FII renewed its [Performance Management Framework](#) outlining FII's approach to measuring and evaluating its performance—both internally and indirectly through its funding programs. Last produced in 2012, the updated report is fully aligned with the [FII Strategic Plan for 2018/19–2022/23](#) as well as the [FII Service Plan for 2019/20–2021/22](#). It will be used to evaluate the effectiveness of FII's programs and to continually improve performance over time. The report has been reviewed by FII's Board and can be found on the [bcfii.ca website](http://bcfii.ca).

We are pleased to report that in all operations during the year, FII demonstrated efficiency, accountability and integrity in the delivery of its programs. The company concluded the year having met all its obligations as set out in the 2019/20 Mandate Letter and having largely achieved the core performance plan targets established in the company's 2019/20–2021/22 Service Plan.

Silas Brownsey



Board Chair, Forestry Innovation Investment  
June 24, 2020

Michael Loseth



President & CEO, Forestry Innovation Investment  
June 25, 2020

## Purpose of the Annual Service Plan Report

The Annual Service Plan Report is designed to meet the requirements of the [Budget Transparency and Accountability Act](#) (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation's Board is required to report on the actual results of the Crown's performance related to the forecasted targets documented in the previous year's Service Plan.

## Purpose of the Organization

Forestry Innovation Investment (FII) is the Government of British Columbia's market development agency for forest products. FII works with the forest industry to maintain, create and diversify demand for B.C. forest products in Canada and in key world markets; promote B.C.'s forest products and forest management to the global marketplace; and help ensure that the forest sector, through innovation and strong international sales, continues to be a leading contributor to the B.C. economy.

In pursuing its mandate, and to provide the best value to taxpayers and stakeholders, FII uses a collaborative model for developing, funding and delivering its programs. Under this model, FII works with the B.C. forest industry, the federal government and leading research institutions to grow exports to existing markets, such as the U.S., China, Japan and South Korea, while promoting the use of B.C. products in high potential, emerging markets, such as India and Vietnam. This approach takes advantage of partner expertise and marketing networks and ensures program costs are shared with other organizations, including industry and the federal government. By leveraging these partnerships, FII is able to lead a comprehensive effort to expand B.C.'s exports to major markets in Asia and North America, and to foster greater capacity and innovation in the domestic manufacturing sector.

FII maintains two operating and one non-operating subsidiaries:

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

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

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

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

## Strategic Direction

The strategic direction set by Government in 2019/20, and expanded upon in the Board Chair's [Mandate Letter](#) from the Minister Responsible in 2019, shaped the 2019/20 Forestry Innovation Investment [Service Plan](#) and results reported in this annual report.

Forestry Innovation Investment (FII) is aligned with the Government’s key priorities:

Government Priorities	FII aligns with these priorities by:
Making life more affordable	<ul style="list-style-type: none"> <li>• Placing significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies. By partnering with forest sector organizations in Canada and abroad, FII is able to leverage their expertise and financial resources to create and deliver strategic and focused market development programming that provides the highest value for the B.C. forest sector and the taxpayers of B.C. (Objective 4.1).</li> </ul>
A strong, sustainable economy	<ul style="list-style-type: none"> <li>• Collaborating with industry, government and institutional partners to deliver a suite of programs and activities focused on three complementary goals that will strengthen the forest sector and support forest dependent communities:                             <ul style="list-style-type: none"> <li>○ Position B.C. as a reliable global supplier of quality building products from sustainably managed forests (Objective 1.2—Goal 1)</li> <li>○ Ensure returns from B.C.’s conventional and next generation forest products are optimized in markets offering high potential (Goal 2)</li> <li>○ Establish B.C. as a leader in adopting innovative forest products and building systems (Goal 3)</li> </ul> </li> </ul>

## Operating Environment

In 2019/20, B.C.’s forest sector was heavily impacted by B.C. fibre supply constraints, increasing global competition, declining global softwood lumber prices and continued market volatility. Slowing economic momentum, geo-political and trade uncertainty, low cost competition and increasing protectionism, including the trade war between the U.S. and China, all placed a drag on global growth and dampened economic confidence. The fiscal year ended with the COVID-19 outbreak, with significant impacts felt in March 2020, particularly in FII’s priority Asian markets.

Across 2019, B.C.’s forest sector experienced the forecasted consequences of the mountain pine beetle (MPB) epidemic and wildfires from years prior. Several sawmills were closed in the Interior, resulting from a reduced overall Allowable Annual Cut and the shift from processing high volumes of pine beetle logs to smaller volumes of healthy live stands. Mill closures in the Interior were compounded by a Coastal strike that put many forest sector professionals out of work for over seven months of the fiscal year. Despite these constraints, the forest sector still exported \$11.9 billion worth of forest products in 2019, accounting for 27.5 per cent of total commodity exports from B.C.<sup>1</sup>

The North American market stayed relatively strong from a construction perspective in 2019 and was slowly strengthening, which helped to achieve metrics despite high lumber prices. B.C. wood products continued to play a prominent role in the U.S. construction market with 60 per

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<sup>1</sup> In 2019, the U.S. remained the province’s largest export market for forest products, accounting for \$5.4 billion (44%) of exports, followed by China at 3.4 billion (28%), Japan at \$1.3 billion (10.5%) and South Korea at \$0.2 billion (3%). In terms of softwood lumber, B.C.’s largest forest product export, the U.S., accounts for the majority of B.C. exports at \$2.9 billion (60%), followed by China at \$0.8 billion (16%) and Japan at \$0.6 billion (13%).

cent of B.C. lumber and 96 per cent of value-added products shipped south of the border (by value). Housing shortages in the U.S. of an estimated 2.5 million to 3.3 million units remain, but U.S. construction spent much of the year slowed by a shortage of skilled trades, high development costs and strict regulatory requirements. The year ended with a notable jump in housing starts in December<sup>2</sup>. This strength continued in January and February of 2020 until housing activity slowed markedly due to COVID-19. As the demographic shift away from single-family homes continues and the adoption of taller wood building expands, new opportunities for B.C. wood products continue to emerge in the multi-family/multi-storey residential and non-residential construction segments.

China remained B.C.'s largest market for commodity lumber outside of North America despite a slowing Chinese economy due to the U.S.-China trade war and weakened demand in 2019. Canada maintained its position as the second largest importer of softwood lumber into China, but Russia remains the dominant player. Significant low-cost competition from Europe also emerged, as the continent is dealing with a major spruce beetle outbreak and is selling its beetle-affected lumber into China at a heavy discount. Despite these constraints, green building requirements are increasing the emphasis on prefabrication and green building materials, creating new higher-value market opportunities for B.C. wood products and wood building technologies.

In Japan, B.C. remains the leading global supplier of imported softwood lumber products but faces rising competition from growing domestic production and other exporting nations, particularly the European Union. While economic growth is slowing and housing starts have declined<sup>3</sup>, government policy encouraging wood use in public buildings is presenting opportunities for B.C. wood products in hybrid, multi-family/multi-storey and non-residential construction. B.C. remains a top supplier of wood pellets to Japan, but lost market share in 2019 to Vietnam's growing pellet industry<sup>4</sup>.

India and Vietnam remain emerging markets, showing medium- to long-term potential for B.C. wood products. India is experiencing a rapid transition to lumber imports due to increasing restrictions on the supply of tropical hardwoods from traditional supply regions such as Myanmar and Malaysia. This, combined with an enhanced willingness to try softwood species as alternatives to hardwoods, is creating opportunity to introduce B.C. softwood species. Vietnam has established itself as a value-added wood manufacturing hub in recent years and also presents significant opportunity for B.C. However, like India, targeted efforts are required to create awareness of B.C. species and their potential in manufacturing applications.

In B.C. and North America, advancements of new construction technologies and mass timber products are allowing wood to be used in larger, taller and more complex buildings. A renewed focus on infrastructure investment in B.C. encouraged collaboration between government and

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<sup>2</sup> Housing starts jumped to a 1.6 million seasonally adjusted rate in December 2019, from the general trend of 1.3 million for the year.

<sup>3</sup> Japan's economy grew approximately 1% in 2019 but exited the year with -0.4% growth in Q4. Total housing starts were down 4% from 2018 with wood starts down 3%.

<sup>4</sup> In 2019 Canadian exports of wood pellets to Japan dropped 7% to 590,000 tonnes (B.C. is 93% of this). Japanese imports of wood pellets grew 58% in 2019 to 1.5 million tonnes solely due to a volume increase from Vietnam of over 0.5 million tonnes.

industry partners across 2019 to position wood and act as a global showcase for how wood design can help reduce the carbon footprint of the built environment. The early adoption of the 2020 building code, allowing mass-timber technology for construction of buildings up to 12 storeys, helped to further advance wood innovation in the province.

## **Report on Performance: Goals, Objectives, Measures and Targets**

In 2019/20, FII's investments focused on advancing forest sector innovation in B.C., communicating the benefits of B.C. forest products and increasing diversification in domestic and international markets. In pursuing these priorities, FII worked with the forest industry, its trade associations, research institutions and other levels of government to leverage advancements in products, designs and engineering technologies with the objective of continuing to build markets for wood products at home and in key markets abroad. The following describes the specific goals, strategies and performance targets pursued by FII during 2019/20.

### **Goal 1: Forest products are viewed as an environmentally friendly, preferred material, and B.C. is viewed as a reliable global supplier of quality products from sustainably managed forests**

The primary objective of Goal 1 is to expand opportunities for B.C. forest products by positioning wood, and wood-based products from B.C., as the first choice for environmentally friendly building materials. The strategies under Objective 1.1 create a solid foundation for answering the questions, "Why wood?" and "Why wood from B.C.?", upon which many of FII's other market development investments and activities are based.

#### **Objective 1.1: Opportunities for B.C. forest products are expanded by positioning wood, and wood-based products from B.C., as the first choice for environmentally friendly building materials**

This objective supports Government efforts to revitalize the forest sector. It focuses on taking advantage of two significant trends in the marketplace: the increasing recognition of wood products as "green", and growing demand from consumers for forest products that are produced in an environmentally responsible manner. As customers are factoring environmental parameters into purchasing decisions, there is considerable value in articulating the benefits of wood as a sustainable, renewable building material; 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. These environmental benefits apply equally to higher-margin wood products manufactured in B.C.

#### **Key Highlights**

- FII's [naturallywood.com](http://naturallywood.com) hosts information on the environmental benefits of wood products from B.C.'s sustainably managed forests.
- FII and the Canadian Council of Forest Ministers' (CCFM) Forest in Mind program funded UBC to conduct two studies comparing B.C. and Canada's State of the Forests

reports with seven other jurisdictions around the world. *The State of British Columbia’s Forests: A Global Comparison* was published in March 2020 in the open access journal *Forests*. A factsheet synthesizing the report findings will be disseminated. *The State of Canada’s Forests: A Global Comparison* is to be published in the international journal *Forest Policy and Economics* in the coming months following peer review. The studies found that B.C. is a global leader in sustainable forest management, with one of the world’s most comprehensive forest regulation regimes and a stable forest land base. Its deforestation rate is among the lowest in all the jurisdictions studied, and it has protected 14 percent of its forest land.

- FII continues to be an active participant in the CCFM Forest in Mind program, promoting Canada’s sustainable forest management leadership to international audiences and addressing market access issues for Canadian forest products.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.1 Percent of customers who perceive that forest products from B.C. are a good choice for the environment <sup>1</sup>	N/A	90%	97%	N/A	90%

Data source: Leger—The Research Intelligence Group. Analysis of Market Acceptance Issues.

<sup>1</sup>Surveys are conducted biennially.

## Discussion of Results

This measure provides an indication over time of the effectiveness of FII’s international advocacy and communications initiatives to influence customer perceptions of B.C. and its forest management practices. Performance data are gathered by an independent research firm through a biennial survey of international customers (e.g., large institutional pulp and paper buyers, and wood importers and distributors).

The 2019/20 survey of international customers is a cooperative undertaking between FII and the CCFM Forest in Mind program. The survey, which is focused on environmental perspectives, identified the percentage of customers who agree that B.C.’s environmental reputation is as good as, or better than, the average of competing forest product jurisdictions.

The results for 2019/20 are 97 per cent—down two per cent from the 2017/18 result of 99 per cent, but still exceeding the 90 per cent target. While the overall drop is small, other study results demonstrate that a lower percentage of customers are aware of B.C. and Canada’s environmental credentials, which indicates a continued need to promote B.C. and Canada’s leadership around the world.

For future targets, FII and its partners consider that maintaining a 90 per cent rating represents optimal performance given there will always be some who disagree with timber harvesting of any nature.

## Objective 1.2: B.C. is positioned as a reliable global supplier of quality products from sustainably-managed forests

The growing awareness of the benefits of wood products is increasing the demand from consumers for forest products that are produced in an environmentally responsible manner. To help position B.C. to meet this demand, FII delivers a suite of programming that showcases B.C. as a reliable supplier of quality forest products and a global leader in sustaining forest resources and environmental values. This positioning helps strengthen awareness of, and interest in, B.C. forest products in major markets, thus supporting greater market share, premium positioning and easier access to new markets.

### Key Highlights

- FII optimized the [naturally:wood B.C. Supplier Directory](#), adding enhancements to better help potential buyers find wood products and services.
- FII has profiled over 160 wood buildings on the naturallywood.com project gallery, promoting leading wood projects in B.C. and providing inspiration for design professionals. Interactions with the project gallery more than doubled this fiscal compared to last fiscal (from 13,000 to 26,000).
- Building on this content, FII released a print publication called [Naturally Wood](#), showcasing B.C.'s leadership in wood architecture and design. Available in both print and digital versions, *Naturally Wood* is serving as an effective tool for industry and Government to promote B.C. forest products, mass timber construction technologies, and B.C.'s leadership in the use of wood.
- FII developed a [factsheet](#) on mass timber to help educate key audiences on the different types and benefits of these engineered wood products, as well as to provide examples of mass timber buildings across B.C.
- FII completed two case studies: [Wood in Hospitality & Tourism](#) and [Wood in Assisted Living](#), featuring projects from B.C., China, Japan and India that incorporate B.C.'s innovative wood and mass timber products. The resort and elderly care sectors are focuses for many of the overseas markets and the case studies are a result of requests from our overseas partners to develop promotional pieces to support their work in this market segment.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.2 Number of prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII <sup>1</sup>	13,385	13,750	14,086	14,000	14,250

Data source: Forestry Innovation Investment Ltd./Google Analytics.

### Discussion of Results

Performance measure 1.2 links FII's outreach and communications activities to the objective of increasing sales of B.C. forest products. Collecting data on connections made to suppliers tracks

the effectiveness of FII's online product and supplier sourcing tool in increasing awareness of, and interest in, B.C.'s forest products by advancing connections with B.C. companies for potential commercial opportunities. The performance metric tracks the number of visitors who search on the website and the number of visitors who link through to a supplier email or website address.

FII continues to build and optimize content and resources to attract visitors to the naturallywood.com website and to the Supplier Directory located there. From April 1, 2019 to March 31, 2020, a total of 14,086 supplier interactions were made, representing 102 per cent of the annual target. At the end of 2019/20, the Supplier Directory was moved to a different platform which will help drive engagement with targeted stakeholder groups to achieve upcoming targets.

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

Goal 2 supports Government priorities to increase employment in forestry and innovative wood manufacturing by expanding opportunities in international markets. This goal drives FII's efforts to assist the B.C. forest industry in optimizing returns by achieving a balance in the products, species and grades marketed. FII's strategy to expand global markets for both the primary and secondary manufacturing sectors<sup>5</sup> includes a mix of activities delivered by third parties and FII<sup>6</sup>. These efforts build on the strategies as well as the science and reputational foundation developed under Goal 1.

Optimization of the global market-development strategy involves creating or expanding new market segments in traditional regions (e.g. non-residential and multi-family/mid-rise construction in the U.S.), as well as fostering demand in regions that have strong growth potential, but are not currently using high volumes of B.C. forest products (e.g. the multi-family and non-residential markets in China and Japan, and the domestically-focused manufacturing sector in India).

Activities associated with Goal 2 recognize the progress made in diversifying B.C. exports away from the historically heavy dependence on the U.S. single-family housing sector. Programs in this area also focus on achieving a long-term balance between existing and emerging markets, and traditional and innovative new products, including an increase in sales of higher margin products in traditional markets.

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<sup>5</sup> 'Primary' manufacturing typically converts logs to lumber, plywood, OSB, etc.; while 'secondary' manufacturing typically uses a form of lumber as a raw material input for further manufactured products, such as furniture, windows and doors, engineered wood products, mass timber products, cabinets, moulding and millwork, etc.

<sup>6</sup> FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

## **Objective 2.1: B.C.'s sales of higher-value B.C. wood products to China are increased**

China is B.C.'s largest market for commodity lumber outside of North America and a priority market for the B.C. forest sector. FII, in cooperation with partner agencies, the federal government and industry, will continue efforts to advance wood use in China, and to position exports from B.C. in high-potential growth and higher-value segments. This includes encouraging increased wood use in hybrid construction applications<sup>7</sup>, tourism and resort sector construction, mid-rise and taller construction and in China's rapidly expanding manufacturing sector.

### **Key Highlights**

- Completed a first commercial trial demonstration project in China that combines a precast concrete frame structure and a hung wall wood infill system. The Rugao demo project showcases the long-term potential for wood use in China's construction industrialization and supports China's green development goals.
- Supported by FII, Canada Wood China delivered 41 events with 2,458 participants, including seminars, training programs, promotional events and inbound missions. Focused on market development, technology transfer and influencing codes and standards, these events help position Canadian wood species, address market barriers and build relationships with key Chinese stakeholders.
- Organized a two-day training program for nearly 70 government officials and state-owned enterprises on Canadian Wood Frame Construction. Jointly organized by China's Ministry of Housing and Urban-Rural Development (MOHURD), Natural Resources Canada (NRCan) and FII, the event was part of a broader intergovernmental MOU focused on wood-frame building technology, energy efficiency in building construction, and reducing carbon emissions in China's construction sector.
- Partnered with China Academy of Building Research (CABR) to initiate a glue-laminated timber (GLT) certification scheme for Chinese industry with an aim to regulate China's fragmented GLT market and expand opportunities for B.C. lumber in China's construction industry. This supplements an extensive program of updating and expanding wood building codes in China, leveraging Canadian expertise.
- In March 2020, FII China completed a study and report that was shared with key Canadian stakeholders on COVID-19's impact on China's wood imports, construction and real estate industries.

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<sup>7</sup> Hybrid applications incorporate wood components with concrete and steel structures (which currently dominate construction in China).

- FII co-organized with the forest industry a trade mission, led by Minister Doug Donaldson, to Shanghai, China and Tokyo, Japan from November 10–15 with 35 senior representatives from the B.C. forest sector and government. The 2019 mission focused on supporting industry to reinforce relationships with major customers and B.C.’s position as a leading global supplier in light of rising global competition. The program also explored new opportunities to advance wood use across emerging applications, including non-residential, mid-rise, and mass timber construction.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.1 Average value (CAD) per cubic metre generated by softwood lumber sales to China <sup>1,2</sup>	\$208	\$204	\$177.58	\$208	\$212

Data source: BC Stats. Total value of lumber exported divided by the total volume of exports measured in cubic metres. Data is reported by calendar year (January through December), consistent with Statistics Canada data collection and reporting methodologies and to ensure comparability across domestic and international publications.

<sup>1</sup>Performance metrics are tracked for China and India (see Performance Measure 2.2) to reflect FII’s direct operations and program delivery in those two markets. FII also tracks and reports out on data and trends in all other key Asia markets, including Japan and South Korea.

<sup>2</sup>Targets for 2020/21 and 2021/22 were updated. See the [2020/21 - 2022/23 Service Plan](#) for the updated figures.

## Discussion of Results

Performance Measure 2.1 tracks the extent to which the B.C. forest industry is successful in diversifying markets and moving into higher-value segments. The target emphasizes sales to China, where FII investments are leveraging a significant joint industry and government (provincial and federal) market development effort to position B.C. as the leading exporter of high-quality softwood lumber to China.

Average export value per cubic metre from January to December 2019 was \$177.58, which is below target. The lower value can be attributed to lower lumber prices globally—driven by suppressed U.S. domestic lumber demand, a slowing Chinese economy due to the U.S./China trade dispute, significant low cost competition from Europe as they deal with a major spruce beetle outbreak and strong competition from Russia. In 2019, the price of lumber for all import countries into China dropped, with Canada’s price decline similar to competing importers.

Targets moving forward have been lowered to reflect the significant drop in global lumber prices and other trade dynamics impacting B.C. exports. This adjustment to Performance Measure 2.1 is reflected in the 2020/21–2022/23 Service Plan.

## Objective 2.2: Open markets for B.C. wood products in India

FII’s market development program in India is focused on augmenting the country’s dwindling supply of tropical and domestic hardwoods with Canadian softwood. The program targets applications for B.C. wood species in the manufacturing sector, including doors, windows, architectural millwork, furniture and interior finishing product applications. Targeted opportunities are also being explored in wood structures and prefabricated wood frame housing. Building on a mix of research, education and promotion to increase awareness of, and knowledge

about, B.C. wood species, FII encourages commercialization through product trials with manufacturers and securing high-profile demonstration projects with strategic partners.

### Key Highlights

- Conducted 15 educational seminars, 5 networking events and 36 training workshops in different cities targeting high profile architects, interior designers, manufacturers, contractors, carpenters and wood importers to increase awareness about B.C. as a sustainable source of certified wood, as well as B.C. species, their properties and applications.
- FII organized a B.C./India roundtable luncheon during BC Wood’s Global Buyers Mission. With approximately 50 people in attendance, including 11 delegates from India, the event provided B.C. forest products representatives a valuable opportunity to network one-on-one with buyers from India.
- FII India conducted a perception survey of key stakeholder groups in India (importers, stockists, manufacturers, architects and developers) to assess the opportunity for Canadian wood products now and in the future as a result of FII programming activities. Survey results highlight that 94 per cent of the 143 respondents reported a positive experience using Canadian species in products and 87 per cent indicated they are likely to use Canadian species in the future.
- Targeting the hospitality industry, FII India participated in IndiaWood 2020 to showcase applications of B.C. wood species in two distinctive styles/techniques of building with wood—Wood Frame Construction (WFC) and Tongue and Groove (T&G) Resort Style Houses. The hospitality industry is increasingly looking at building eco-friendly resorts by using wood in structural applications, opening an opportunity for the introduction of B.C. species and building techniques.
- The Taj Rishikesh Hotel in India’s northern state of Uttarakhand was completed in spring 2019 and features both B.C. hemlock for interior paneling on walls and ceiling areas, and Douglas-fir for windows, doors, soffits and ceiling panelling. This project represents a showcase of B.C. wood species in a very high-end resort project, and the culmination of three years of collaboration with the developer.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.2 Total number of product trials of B.C. species undertaken in India <sup>1</sup>	26 <sup>1</sup>	26	30	30	32

Data source: Forestry Innovation Investment Ltd.

<sup>1</sup>Target was for 24 product trials, 26 were achieved.

### Discussion of Results

Market development in India is led by FII through its India-based subsidiary. Product trials continue to emerge as an effective means for FII to encourage Indian manufacturers to convert existing or new production to using B.C. wood. FII’s Try Canadian Wood program continues to provide qualified Indian manufacturers with small test volumes of B.C. wood, as well as technical support for trying B.C. wood in new or existing product lines. Product trials completed

to date have resulted in a range of furniture and interior finishing products being produced on a test basis, with a number of trials leading to commercial orders for products made with B.C. species.

FII exceeded its 2019/20 target as a result of continued, dedicated efforts to cluster product trials within regions of India. This model proved successful in 2018/19, with initial cluster trials in the state of Rajasthan working with nine large furniture manufacturers at once. FII's success in expanding the number of product trials across India is key to opening the market for B.C. wood species and helping B.C. firms advance commercial sales to India.

### **Objective 2.3: Wood products secure greater market penetration in U.S. non-residential and multi-family construction**

The U.S. housing sector, particularly single-family home construction, remains the leading consumer of B.C. lumber, panels, cedar products and value-added wood products. However, with the market moving toward multi-family living, FII is focusing its funding support towards work that expands wood beyond the single-family residential segment and into growth opportunity sectors in multi-family/multi-storey construction and non-residential (commercial, institutional and recreational) construction. These segments have significant opportunity to increase wood's market share, and to expand opportunities to use wood both structurally and architecturally. FII funding specifically focuses on growing wood use in these segments.

#### **Key Highlights<sup>8</sup>**

- FII supported the U.S. [WoodWorks](#) program in 2019/20 to deliver 446 WoodWorks-hosted and third-party events resulting in 49,339 practitioner education hours delivered through a range of in-person symposiums, workshops, seminars and online webinars.
- BC Wood is supporting value-added wood manufacturing businesses to access the U.S. market through an integrated market development program with funding from FII. Ten firms were selected for an initial cohort to take part in the intensive, customized training workshops, one-on-one coaching and peer networking. These workshops enabled firms to build the capacity and market research required to expand into the U.S. market.
- The Western Red Cedar Lumber Association's Real Cedar YouTube channel topped 100 informational and promotional videos, demonstrating the commercial importance of the medium to reach and engage consumers, builders, designers and architects, and drive potential buyers to realcedar.com. Video has been an important means of maintaining and growing awareness of Western Red Cedar (WRC) and promoting the species' value proposition.
- *Think Wood* provided wood education and inspirational content, including B.C. buildings and expertise, to the world's most visited architecture website, ArchDaily, along with other influential trade publications, exposing thousands of visitors to B.C. wood and building expertise.

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<sup>8</sup> FII's activities in the U.S. market are delivered through and with industry partners. Highlights noted reflect the activities of those partners that have been supported by FII in 2019/20.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.3 Total sales (USD, millions) of wood attributable to directly influenced and converted projects— U.S. non-residential and multi-storey/multi-family residential construction markets	\$173	\$181	\$212	\$198	\$219 or greater

Data source: U.S. [WoodWorks](#) program.

<sup>1</sup> Targets for 2020/21 and 2021/22 were updated. See the [2020/21 - 2022/23 Service Plan](#) for the updated figures.

## Discussion of Results

This measure tracks success in increasing wood usage in the U.S. in the commercial, institutional and multi-family residential/mid-rise segments. Most single-family housing in North America uses wood-frame construction as the primary building method; however, wood has a smaller share of non-residential structures and of multi-storey, multi-family residences. The forest industry in B.C., the rest of Canada and the U.S. has a strong interest in seeing wood products secure a much higher market penetration in this segment. To this end, FII supports the U.S. [WoodWorks](#) program to deliver education and technical advisory activities that assist architects, builders and developers to incorporate more wood into projects, as well as convert projects from other materials to wood. Efforts focus on a range of building types (i.e., multi-storey/multi-family, non-residential, taller buildings) and systems (wood-frame, mass timber, hybrid). This diversification strategy helps expand the influence of the program across the construction sector while protecting suppliers against market fluctuations in any one segment of the building sector.

The ability to achieve Performance Measure 2.3 is contingent upon the performance of FII’s funding recipient in its delivery of Market Initiatives programming and on other external factors impacting construction activity in the U.S., such as the level of real estate investment and the process for approving and implementing building code changes. The target is based on the incremental increase in the value of wood sales that are generated in the year through projects converted and/or influenced by the program activities tracked by FII’s funding partners.

For 2019/20, US WoodWorks reported 369 projects that have been converted to wood, resulting in an incremental \$212 million of wood use. This exceeds the Performance Measure 2.3 target for 2019/20 and can be attributed to interest in mid-rise and taller mass timber projects growing across the U.S. from the Pacific Northwest to the Eastern Seaboard and as far as Texas.

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

This goal supports Government’s strategic direction to expand innovation in the wood-products sector. The goal focuses on addressing research, education and supply chain barriers hampering the growth of mass timber and next generation engineered wood products and systems in B.C., and on guiding FII’s efforts to work with partners inside and outside government to ensure public projects prioritize the use of wood.

### **Objective 3.1: Wood is positioned as a preferred building material and B.C. as a leader in wood innovation**

Long-term sustainability of the forest economy requires the active maintenance, creation and diversification of demand for B.C. forest products. FII is focused on expanding and advancing opportunities across the product value chain, from lumber suppliers and engineered wood manufacturers to skilled labour, engineers, designers and architects. By introducing new and advanced wood technologies and building systems here in B.C., wood is positioned as a preferred building material and B.C. as a leader in wood innovation. As a result, B.C.'s forest products can be more effectively marketed for construction, interior design and daily living at home and abroad.

Strategies incorporated under Objective 3.1 are delivered primarily through FII's Wood First program, which works to position B.C. as a leader in using innovative forest products and building systems by delivering promotional, research, educational and capacity-building initiatives throughout the province. An independent Wood First Advisory Committee, made up of senior industry executives, provides strategic guidance on program implementation priorities. To effectively deliver its Wood First mandate, FII relies on existing research and partners extensively with service delivery organizations, promoting integrated planning and coordinated delivery of program activities and initiatives.

#### **Key Highlights**

- FII funded a range of research and tools to support B.C. in enabling the early adoption of the 2020 building code and mass timber use in buildings up to 12 storeys, including research on:
  - Biophilia and the use of wood in building design and its effects on the health of building occupants.
  - Options for wood use in healthcare settings focused on mass timber engineering and construction solutions.
  - Mitigating insurance, financing and cost barriers to wood use.
  - Best practices for demonstration initiatives in wood construction.
  - Understanding the technical or other impediments to using Hem-Fir<sup>9</sup> for mass timber and engineered wood products.
- Commissioned by FII and authored by leading wood practitioners, a report was prepared that addresses the opportunities and challenges for the use of wood and wood products in the construction, renovation and repair of schools in B.C.
- FII's Wood First program supported the Construction Foundation of B.C.'s efforts to increase youth exposure to B.C. wood products, wood products and forestry careers—starting with First Nations schools.
- FII continues to work alongside Provincial Government partners to advance wood innovation in B.C., including the following:

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<sup>9</sup> Hem-Fir is comprised of two coastal species (hemlock and amabilis fir) and is known for its combination of strength and beauty. It is used in the construction of residential, light commercial buildings, structural building components and a wide range of industrial applications (<https://canadawood.org/products/hemfir/>).

- Cooperating with the Ministry of Forests, Lands, Natural Resource Operations and Rural Development and a range of other ministries to develop options and recommendations to advance the use of mass timber products in B.C.
- Collaborating with the Ministry of Health, the Ministry of Tourism, Arts and Culture, and the Office of Housing and Construction Standards to support the use of mass timber in the new St. Paul’s Hospital project and the Royal BC Museum.
- Working with the Building Standards and Safety Branch (BSSB) on the implementation of the 2018 BC Building Code and advancing ways to accelerate the adoption of the 2020 National Building code in B.C.
- Collaborating with the BSSB to support the development of Professional Practice Guidelines—Architectural and Engineering Services on Mass Timber Buildings up to 12 Storeys. Co-created by the Architectural Institute of BC and Engineers and Geoscientists BC, these guidelines are an effective way to establish the standard of practice related to the design and construction of mass timber buildings of this scale.
- Collaborating with the Ministry of Energy, Mines and Petroleum Resources on a Better Buildings incentive program to advance and promote energy efficient building systems (and for FII, projects that use wood).
- Working with BC Housing to document the construction of an innovative housing project to better understand and share the benefits of modern methods of construction (lean construction) as a means to achieve quality, performance and reliability of high-performance buildings.
- FII supports the Wood *WORKS!* BC program to deliver education and technical advisory activities that assist architects, engineers, builders and developers to incorporate more wood into projects, as well as convert their projects from other materials to wood. Through these efforts, 50 directly influenced projects went to construction, resulting in \$71 million direct incremental wood product value. 106 training sessions were also delivered, resulting in 10,492 education hours and 4,379 people receiving training.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
3.1 Total sales (CAD, millions) of wood attributable to directly influenced and converted projects—B.C.’s non-residential and multi-storey/multi-family residential construction markets	\$57.3	\$63	\$63.1	\$68	\$68 or greater

Data source: Canadian Council’s [Wood WORKS! BC](#) program.

## Discussion of Results

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. To this end, FII supports the [Wood WORKS! BC](#) program to deliver education and technical advisory activities that assist architects, builders and developers to incorporate more wood into projects, as well as convert their projects from other materials to wood. Efforts focus on a range of building types (i.e., multi-storey/multi-family,

non-residential and taller buildings). This diversification strategy will help expand the influence of the program across the construction sector while protecting suppliers against market fluctuations in any one particular segment of the building sector.

The ability to achieve Performance Measure 3.1 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming and on other external factors impacting construction activity in B.C., such as the level of real estate investment and the process for approving and implementing building code changes. The target is based on the incremental increase in the value of wood sales that are generated in the year through projects converted and/or influenced by program activities funded by FII and its funded partners.

In 2019/20, 50 projects were converted to wood during the year, falling short of the program target of 74. These projects resulted in an incremental \$63.1 million of wood use (100 per cent of target) with 90 per cent of the projects in building classification type "C" (apartments/ hotel buildings). The other five projects were: A4—Stadia, O—Towers, D—Offices, A2—Churches and similar places of worship, B3—Assisted/supportive living facilities.

#### **Goal 4: FII is a highly effective, innovative and responsive organization**

FII's business practices incorporate robust financial controls and a performance management framework, including monitoring, audit and evaluation, built on long-term market development principles and a comprehensive risk-assessment strategy. All these approaches reflect government policies and best practices and are consistent with direction articulated in FII's Mandate Letter.

#### **Objective 4.1: FII's market development programming is strategic, focused and provides the highest value for the forest sector and the taxpayers of B.C.**

FII is committed to delivering programs that deliver the highest value for the forest sector and the taxpayers of B.C. Consistent with this commitment, FII delivers its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies, including JEDC and FLNR. By partnering with forest sector organizations from Canada and abroad, FII is able to leverage its expertise and financial resources to maximize the effectiveness and efficiency of its programs. In delivering against its mandate, FII remains committed to a path of environmental sustainability, including minimizing its environmental footprint, in order to protect the natural environment and the B.C. economy for future generations.

#### **Key Highlights**

- FII's goals, strategies, measures and targets remained aligned with, and supportive of, Government's priorities through ongoing engagement across the year with its responsible Ministry, JEDC. Performance was reported through meetings with the Minister and by way of reports tabled at all regular meetings of the FII Board.

- Across 2019, FII undertook a review and update of its Performance Management Framework. Last produced in 2012, the updated report draws from lessons learned over the past 15 years of working with industry and government stakeholders and is fully aligned with the FII Strategic Plan for 2018/19–2022/23, as well as the FII Service Plan for 2019/20–2021/22.
- In collaboration with NRCan, FII redeveloped the funding management system that is used for recipient funding programs. After more than 10 years of use, a new system was introduced that will more efficiently allow eligible organizations to electronically apply for funding to FII (and NRCan), and to complete all contract reporting requirements online.

Performance Measure	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1 Other organizations' aggregate contribution to recipient funding program <sup>1</sup>	70%	65%	73%	65%	65%

Data source: Forestry Innovation Investment Ltd.

<sup>1</sup>In its recipient funding program, FII targets annual contributions of approximately 65 per cent from other organizations; however, contributions from others vary from 0 to 100 per cent, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

## Discussion of Results

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

The 65 per cent target figure reflects the share of funding provided by others (industry and the federal government) to FII's cost-shared recipient funding program across the suite of investments in all programs and markets. While the proportion of funds received from industry and the federal government varies by market and type of activity, FII's goal is to maintain an average of 65 per cent "other" funding in the program<sup>10</sup>. Given this is an average across a suite of investments, where some fluctuation is expected year-to-year, 65 per cent is viewed as an optimal target—where \$2 is provided by others to leverage \$1 from FII. Data to support this measure are sourced from the online recipient funding system, which is co-funded and managed by FII and NRCan, and through FII's year-end financial reporting.

During the year, FII allocated a total of \$7.26 million to third party organizations to deliver market development activities in China, Japan, Korea, India and Vietnam in Asia; and the U.S. and Canada in North America. This funding from FII leveraged an additional \$26.54 million in

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<sup>10</sup> The federal government does not fund activities in all markets where FII and industry are active. As a result, FII provides a higher share of overall funding in certain markets, increasing its average annual share of total program costs to just over one-third.

federal and industry contributions, or 73 per cent of the total delivered recipient program. This exceeded the target set for the year.

In addition to the contributions of others to the ongoing recipient program, FII also draws other leveraged funding for its market development programming. For 2019/20, other funding included:

- \$2.72 million from NRCan for India and Vietnam market development initiatives and other co-funded programs; and
- \$1.88 million from other sources, including contributions from industry associations, other governments and deferred revenue arising out of restricted capital contributions.

## Financial Report

### Discussion of Results

The following table summarizes the revenue that FII anticipated at the start of 2019/20 and the actual revenue for the year:

<b>\$ millions</b>		
<b>Source</b>	<b>2019/20 Budget</b>	<b>2019/20 Actual</b>
The Province of British Columbia	19.61	19.61
Natural Resources Canada	2.16	2.72
Other	4.34	1.88
<b>TOTAL Revenue</b>	<b>26.11</b>	<b>24.21</b>

\*The decrease in other funding relates to the Softwood Lumber Board's decision to fully fund and deliver the Think Wood program directly.

In 2019/20, FII continued to leverage substantial funds from the Government of Canada. Natural Resources Canada (NRCan) provided \$1,760,000 to support FII India, \$352,800 for the Vietnam initiative and another \$609,000 to support other market development initiatives.

In 2019/20, the funds that FII provided to other organizations through competitive Calls for Proposals amounted to approximately 31 per cent of FII's total expenditures, with the balance used for direct service delivery by FII in Vancouver and its two subsidiaries.

During the year, FII managed the risks associated with funding and monitoring activities developed and delivered by third parties, and with initiatives delivered by FII in foreign and domestic markets. FII ended the year with a surplus of \$498,000, resulting partly from funding provided to industry and government partners for initiatives focused on expanding wood use in B.C. and global markets which was returned as unspent. In addition, the COVID-19 pandemic, which broke out during the last quarter of the fiscal year, inhibited some programs from fully completing all the projects that were anticipated.

## Financial Summary

\$000	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
<b>Revenue</b>				
Contribution from Province of B.C. <sup>(1)</sup>	19,686	19,610	19,606	(4)
Contribution from the Federal Government	1,880	2,160	2,720	560
Other Revenue	3,237	4,340	1,885	(2,455)
<b>Total Revenue</b>	<b>24,803</b>	<b>26,110</b>	<b>24,211</b>	<b>(1,899)</b>
<b>Expenses</b>				
Funding Recipient Initiatives	9,949	9,134	8,855	(279)
Market Outreach & Initiatives				
Government Initiatives and Outreach <sup>(2)</sup>	7,126	8,956	6,877	(2,079)
China—Market Development	2,468	2,300	2,357	57
India—Market Development <sup>(2)</sup>	3,684	4,300	4,071	(229)
Corporate Services	1,504	1,420	1,553	133
<b>Total Expenses</b>	<b>24,731</b>	<b>26,110</b>	<b>23,713</b>	<b>(2,397)</b>
<b>Net Income from Operations</b>	<b>72</b>	<b>0</b>	<b>498</b>	<b>498</b>
<b>Total Liabilities</b>	<b>3,598</b>	<b>2,450</b>	<b>2,588</b>	<b>138</b>
<b>Capital Expenditures</b>	<b>133</b>	<b>50</b>	<b>186</b>	<b>136</b>
<b>Accumulated Surplus</b>	<b>3,497</b>	<b>3,425</b>	<b>3,995</b>	<b>570</b>

The above financial information was prepared based on current Canadian Public Sector Accounting Standards.

**Note 1:** The 2019/20 budget number includes the base budget of \$19.550 million plus \$60,000 for the shared office in Mumbai India. The actual contribution from the Province includes funds deferred for the purchase of capital assets.

**Note 2:** The budget for Government Initiatives and Outreach and the budget for India—Market Development were amended and approved by the Board after the completion of the 2019/20–2021/22 Service Plan.

## Variance and Trend Analysis

The contribution from the federal government includes an additional \$560,000 of NRCan funding for other miscellaneous cost shared initiatives. The reduction in Other Revenue and the reduction in expenditures in the Government Initiatives and Outreach programs relates to the Softwood Lumber Board's decision to fully fund and deliver the Think Wood program directly.

The increased spending in the India—Market Development program relates to additional opportunities taken to conduct product trials relating to Wood in Construction.

## **Risks and Uncertainties**

FII funds extensive market development programming in offshore markets, particularly in Asia. As a result, FII is subject to foreign exchange risk through its program payables and advances, and a portion of FII's program costs, which are denominated in Chinese Renminbi, Indian Rupee, U.S. dollars and other foreign currencies. While FII manages exposure to currency risk by monitoring assets and liabilities denominated in foreign currencies and by purchasing foreign denominated currency when market conditions are favourable, volatility in the value of the Canadian dollar against foreign currencies has increased exchange rate risk.

As COVID-19 isolation guidelines and social distancing orders continue to impact tradeshow, the delivery of educational seminars and reduced employee travel in the India, China and Vietnam offices; other strategies are being examined to mitigate these impacts such as delivering education and promotional seminars online.



**Forestry Innovation  
Investment<sup>®</sup>**

Consolidated Financial Statements

Forestry Innovation Investment Ltd.

March 31, 2020

## Statement of Management Responsibility

### *Scope of Responsibility*

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

We believe that these consolidated financial statements present fairly FII's financial position as at March 31, 2019 and the consolidated statement of operations, change in net assets, and cash flow for the year ending March 31, 2020 and that the other information contained in the Company's annual report is consistent with the consolidated financial statements as presented.

### *Internal Controls*

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

### *Board of Directors and Audit Committee*

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

### *Independent Auditors*

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



Michael Loseth  
Chief Executive Officer



Douglas Greig  
Vice President & CFO

Vancouver, British Columbia  
May 21, 2020



## Independent Auditor's Report

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To the Board of Directors of [Forestry Innovation Investment Ltd.](#)

To the Minister of International Trade, [Province of British Columbia](#)

### Opinion

We have audited the consolidated financial statements of Forestry Innovation Investment Ltd. (the "Company"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management



determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and the organizations it controls to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Vancouver, Canada  
May 21, 2020

*Grant Thornton LLP*

Chartered Professional Accountants

## Audited Financial Statements

<b>Forestry Innovation Investment Ltd.</b>			
<b>Consolidated Statement of Financial Position</b>			
(in thousands of dollars)			
March 31		2020	2019
	<u>Note</u>		
<b>Financial assets</b>			
Cash and cash equivalents		\$ 4,385	\$ 3,523
Accounts receivable		360	1,377
Recipient advances	4	43	17
Due from Province of British Columbia		16	15
Due from other governments		949	1,044
Total financial assets		<u>5,753</u>	<u>5,976</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	3	1,675	2,311
Due to Province of British Columbia		21	27
Due to other governments		174	148
Recipient payables	4	197	287
Deferred contributions	6	521	825
Total liabilities		<u>2,588</u>	<u>3,598</u>
Net financial assets		<u>3,165</u>	<u>2,378</u>
<b>Non-financial assets</b>			
Tangible capital assets	7	344	320
Prepaid expenses		486	799
Total non-financial assets		<u>830</u>	<u>1,119</u>
Accumulated surplus		<u>\$ 3,995</u>	<u>\$ 3,497</u>

Commitments (Note 8)

Approved by the Board



Director



Director

See accompanying notes to the consolidated financial statements.

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**Forestry Innovation Investment Ltd.**  
**Consolidated Statement of Operations and Accumulated Surplus**

(in thousands of dollars)

Year ended March 31	Budget	<b>2020</b>	2019
	<u>Note</u>		
Revenue	10		
Government contributions			
Provincial	\$ 19,610	<b>\$ 19,606</b>	\$ 19,686
Federal	2,160	<b>2,720</b>	1,880
Other revenue	4,340	<b>1,746</b>	3,116
Investment income	-	<b>139</b>	121
	<u>26,110</u>	<u><b>24,211</b></u>	<u>24,803</u>
Expenses	10		
Funding recipient initiatives	9,134	<b>8,855</b>	9,949
Market initiatives and outreach			
FII Vancouver	9,456	<b>6,877</b>	7,126
FII China	2,300	<b>2,357</b>	2,468
FII India	3,800	<b>4,071</b>	3,684
Corporate services	1,420	<b>1,553</b>	1,504
	<u>26,110</u>	<u><b>23,713</b></u>	<u>24,731</u>
Annual surplus	-	<b>498</b>	72
Accumulated surplus, beginning of year	3,497	<b>3,497</b>	3,425
Accumulated surplus, end of year	<u>\$ 3,497</u>	<u><b>\$ 3,995</b></u>	<u>\$ 3,497</u>

See accompanying notes to the consolidated financial statements.

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<b>Forestry Innovation Investment Ltd.</b>			
<b>Consolidated Statement of Changes in Net Financial Assets</b>			
(in thousands of dollars)			
Year ended March 31	Budget	<b>2020</b>	2019
Annual surplus	\$ -	\$ <b>498</b>	\$ 72
Acquisition of tangible capital assets	(145)	<b>(186)</b>	(133)
Amortization of tangible capital assets	212	<b>160</b>	212
Disposal of tangible capital assets	-	<b>2</b>	1
(Acquisition) use of prepaid expenses	<u>(150)</u>	<u><b>313</b></u>	<u>(147)</u>
Increase in net financial assets	(83)	<b>787</b>	5
Net financial assets, beginning of year	<u>2,378</u>	<u><b>2,378</b></u>	<u>2,373</u>
Net financial assets, end of year	<u>\$ 2,295</u>	<u>\$ <b>3,165</b></u>	<u>\$ 2,378</u>

See accompanying notes to the consolidated financial statements.

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**Forestry Innovation Investment Ltd.**  
**Consolidated Statement of Cash Flows**

(in thousands of dollars)  
 Year ended March 31

	2020	2019
Cash provided by (used in):		
<b>Operating</b>		
Annual surplus	\$ 498	\$ 72
Items not involving cash		
Amortization of tangible capital assets	160	212
Amortization of deferred contributions	(516)	(380)
Loss on disposal of tangible capital assets	2	1
Change in accounts receivable	1,017	(632)
Change in recipient advances	(26)	100
Change in due from Province of British Columbia	(1)	2
Change in due from other governments	95	(453)
Change in accounts payable and accrued liabilities	(636)	251
Change in due to Province of British Columbia	(6)	26
Change in due to other governments	26	(33)
Change in recipient payables	(90)	(83)
Change in prepaid expenses	313	(147)
	<b>836</b>	<b>(1,064)</b>
<b>Investing</b>		
Acquisition of tangible capital assets	(186)	(133)
Sale of short-term investments	-	201
	<b>(186)</b>	<b>68</b>
<b>Financing</b>		
Receipt of deferred contributions	212	488
Net increase (decrease) in cash	<b>862</b>	<b>(508)</b>
Cash, beginning of year	<b>3,523</b>	4,031
Cash, end of year	<b>\$ 4,385</b>	<b>\$ 3,523</b>

See accompanying notes to the consolidated financial statements.

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## **Forestry Innovation Investment Ltd.**

### **Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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#### **1. General**

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

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#### **2. Summary of significant accounting policies**

##### **(a) Basis of presentation**

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

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

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

The impact of this difference on the consolidated financial statements of the Company would be a decrease in deferred capital contributions as at March 31, 2020, and increases in revenues and annual surplus for the year then ended.

##### **(b) Reporting Company and basis of consolidation**

These consolidated financial statements reflect the assets, liabilities, revenues and expenses of the reporting Company. The reporting Company is comprised of the Company consolidated with FII Consulting (Shanghai) Co., Ltd. ("FII China"), a wholly-owned subsidiary registered under the laws of the People's Republic of China; 0939031 B.C. Ltd., a wholly-owned subsidiary registered under the laws of British Columbia; and Forestry Innovation Consulting India Pvt. Ltd. ("FII India"), a wholly-owned subsidiary of the Company and 0939031 B.C. Ltd., registered under the laws of the Republic of India.

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

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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

**(c) Revenue recognition**

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

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

*(i) Restricted capital contributions*

Capital contributions for the purpose of acquiring or developing a depreciable tangible capital asset are recorded and referred to as deferred capital contributions. Deferred capital contributions are reduced and the associated revenue recognized at the same rate and in the same fiscal period that amortization is recognized in respect of acquired depreciable tangible capital asset used to provide services.

*(ii) Other restricted contributions*

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

Investment income includes interest recorded on an accrual basis.

**(d) Program expenses**

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

**(e) Pension plans**

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

**(f) Financial instruments**

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

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

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
 March 31, 2020

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

**(f) Financial instruments (continued)**

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

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

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

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

**(g) Non-financial assets**

*(i) Tangible capital assets*

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

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

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

*(ii) Contributions of tangible capital assets*

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

*(iii) Interest capitalization*

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

*(iv) Intangible assets*

Intangible assets are not recognized in these consolidated financial statements.

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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

**(h) Foreign currency translation**

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

**(i) Budget**

Budget data presented in these consolidated financial statements are based on the Company's Service Plans. The budget was approved by the Board of Directors on January 11, 2019.

**(j) Use of estimates**

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

**(k) Segment disclosures**

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

**(l) Financial assets**

*(i) Cash and cash equivalents*

Cash and cash equivalents comprises cash on hand and deposits with financial institutions.

*(ii) Short term investments*

Short term investments include term deposits measured at cost.

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
 March 31, 2020

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<b>3. Accounts payable and accrued liabilities</b>	<b>2020</b>	2019
Trade payables	<b>\$ 684</b>	\$ 1,316
Accrued liabilities	<b>991</b>	995
	<b>\$ 1,675</b>	\$ 2,311

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**4. Recipient advances and payables**

The Company's policy on recipient funding contracts stipulates that unspent advances are repaid to the Company. Historically, unspent advances have been repaid to the Company prior to the end of the first quarter of the new fiscal year after final reconciliation reports have been submitted.

In addition, the Company withholds a percentage of earnable administration costs from their interim advances. Recipients would qualify for this final funding amount withheld based on meeting eligible reporting criteria in the recipient reporting process.

As at March 31, 2020, the Company has identified \$197 (2019 - \$287) as payable to the recipient organizations and \$43 (2019 - \$17) as receivable from the recipient organizations.

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**5. Pension plans**

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

The most recent actuarial valuation for the Public Service Pension Plan as at March 31, 2017 indicated a \$1,896 million funding surplus for basic pension benefits.

The plan is accounted for as a defined contribution plan. During the year ended March 31, 2020, the Company paid \$236 (2019 - \$216) for employer contributions to the plan.

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**  
(in thousands of dollars)  
March 31, 2020

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**6. Deferred contributions**

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

	<u>Provincial</u>	<u>Other</u>	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 341	\$ 484	<b>\$ 825</b>	\$ 717
Contributions received during the year	190	22	<b>212</b>	488
Amounts amortized to revenue	<u>(152)</u>	<u>(364)</u>	<b><u>(516)</u></b>	<u>(380)</u>
Balance, end of year	<u>\$ 379</u>	<u>\$ 142</u>	<b><u>\$ 521</u></b>	<u>\$ 825</u>

Included in Provincial deferred contributions is \$15 (2019 - \$11) that is unspent.

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
 March 31, 2020

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**7. Tangible capital assets**

**(a) Assets in use**

**Cost**

	2019	Additions	Disposals	2020
Computer equipment	\$ 762	\$ 83	\$ (217)	\$ 628
Computer software	55	-	(43)	12
Furniture and equipment	380	53	(28)	405
Leasehold improvements	1,135	12	(21)	1,126
Tradeshow booths	611	38	(202)	447
	<u>\$ 2,943</u>	<u>\$ 186</u>	<u>\$ (511)</u>	<u>\$ 2,618</u>

**Accumulated amortization**

	2019	Amortization	Disposals	2020
Computer equipment	\$ 632	\$ 81	\$ (215)	\$ 498
Computer software	55	-	(43)	12
Furniture and equipment	349	23	(28)	344
Leasehold improvements	1,021	34	(21)	1,034
Tradeshow booths	566	22	(202)	386
	<u>\$ 2,623</u>	<u>\$ 160</u>	<u>\$ (509)</u>	<u>\$ 2,274</u>

**Net book value**

	2019	2020
Computer equipment	\$ 130	\$ 130
Computer software	-	-
Furniture and equipment	31	61
Leasehold improvements	114	92
Tradeshow booths	45	61
	<u>\$ 320</u>	<u>\$ 344</u>

**(b) Assets disclosed at nominal values**

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

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
 March 31, 2020

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**8. Commitments**

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

2021	\$	1,410
2022		1,144
2023		587
2024		541
2025		290
Thereafter		-
	\$	3,972

(b) The Company also has an obligation to pay \$343 (2019 - \$953) for contracts entered into and not yet completed at March 31, 2020.

(c) The Company has an operating line of credit with HSBC Bank of Canada with maximum available credit of \$2,000 which incurs interest at prime plus 0.5% per annum. As of March 31, 2020, no amounts have been withdrawn through the utilization of the credit line.

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**9. Financial instruments risk management**

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

**Credit risk**

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

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

As at March 31, 2020, accounts receivable, recipient advances, amounts due from the Province, and amounts due from other governments are comprised of:

	Under 90 days	Over 90 days	Total
Accounts receivable	\$ 360	\$ -	\$ 360
Recipient advances	43	-	43
Due from Province of British Columbia	16	-	16
Due from other governments	949	-	949
	\$ 1,368	\$ -	\$ 1,368

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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**9. Financial instruments risk management (continued)**

**Liquidity risk**

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

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

**Market risk**

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

*Currency risk and foreign denominated cash*

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

The Company is subject to foreign exchange risk through its program payables and program advances and a portion of the Company's program and tradeshow costs, which are denominated in Chinese renminbi, Indian rupee and United States dollars. The Company manages its exposure to currency risk by monitoring its assets and liabilities denominated in foreign currencies and purchasing foreign denominated currency to pay upcoming commitments when the market conditions are favourable. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk. Included in office costs is \$62 (2019 – \$60) of foreign exchange gains.

## Forestry Innovation Investment Ltd. Notes to the Consolidated Financial Statements

(in thousands of dollars)  
March 31, 2020

### 9. Financial instruments risk management (continued)

#### Market risk (continued)

*Currency risk and foreign denominated cash (continued)*

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

	2020			
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 191	\$ 681	\$ 847	\$ 1,719
Accounts receivable and due from other governments	-	-	734	734
Accounts payable	-	312	442	754
	2019			
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 776	\$ 369	\$ 405	\$ 1,550
Accounts receivable and due from other governments	-	-	993	993
Accounts payable	-	149	880	1,029

#### *Interest rate risk*

Interest rate risk is the risk that fluctuations in interest rates will affect the Company's net financial assets that bear interest at variable rates. The Company manages its exposure to interest rate risk by investing in interest bearing cash accounts.

### 10. Segmented information

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

#### (a) Funding Recipient Initiatives

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

- Maintain and create opportunities for BC wood products in existing and emerging markets;
- Ensure that customers, consumers, designers, builders, developers and architects know about BC wood products and the many positive features they bring to wood-frame construction and interior finishing;

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## Forestry Innovation Investment Ltd. Notes to the Consolidated Financial Statements

(in thousands of dollars)  
March 31, 2020

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### 10. Segmented information (continued)

#### (a) Funding Recipient Initiatives (continued)

- Support the development of innovative new forest products; and
- Provide interested parties around the world with information on the properties and qualities of BC's forest products and the BC companies that supply them.

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

##### (i) FII Vancouver Initiatives

Internally directs delivered programs that:

- Identify potential opportunities for BC forest products through market research and develop market access strategies;
- Ensure BC forest products have access to markets free from regulatory and other barriers through initiatives and research;
- Provide customers and foreign regulators with facts about the environmental merits of BC forest products, including the sustainable forest management regime that underlies their production;
- Research opportunities in new and emerging markets, and initiate early market exploration activities;
- Champion the Province's Wood First priorities and encourage expanded wood use in BC;
- Raise awareness of the Province as a world leader in advanced wood construction and design; and
- Encourage a robust valued-added sector in BC through enhanced capacity and competitiveness.

##### (ii) FII China Initiatives

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

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

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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**10. Segmented information (continued)**

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

*(iii) FII India Initiatives*

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

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

**(c) Corporate services**

Corporate services performs the following activities:

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

## Forestry Innovation Investment

### Forestry Innovation Investment Ltd. Notes to the Consolidated Financial Statements

(in thousands of dollars)  
March 31, 2020

#### 10. Segmented information (continued)

	Funding Recipient Initiatives	Market Initiatives and Outreach			Corporate services	2020 Total	2019 Total
		FII Vancouver	FII China	FII India			
<b>Revenues</b>							
Government contributions							
Provincial	\$ 8,935	\$ 4,565	\$ 2,300	\$ 2,425	\$ 1,381	\$ 19,606	\$ 19,686
Federal	200	769	35	1,716	-	2,720	1,880
Other revenue	-	1,591	-	144	11	1,746	3,116
Investment income	1	-	-	34	104	139	121
<b>Total revenues</b>	<b>9,136</b>	<b>6,925</b>	<b>2,335</b>	<b>4,319</b>	<b>1,496</b>	<b>24,211</b>	<b>24,803</b>
<b>Expenses</b>							
Amortization	-	-	33	36	91	160	212
Auditing	188	-	45	31	49	313	354
Grants	459	-	-	-	-	459	854
Office costs	45	321	258	565	180	1,369	1,245
Professional services	559	4,039	332	1,686	185	6,801	7,140
Program costs	7,251	362	180	134	(85)	7,842	8,528
Salaries, wages and benefits	353	1,938	1,189	1,175	965	5,620	5,399
Trade missions	-	16	127	29	-	172	88
Travel and business costs	-	201	193	415	168	977	911
<b>Total expenses</b>	<b>8,855</b>	<b>6,877</b>	<b>2,357</b>	<b>4,071</b>	<b>1,553</b>	<b>23,713</b>	<b>24,731</b>
<b>Annual surplus (deficit)</b>	<b>\$ 281</b>	<b>\$ 48</b>	<b>\$ (22)</b>	<b>\$ 248</b>	<b>\$ (57)</b>	<b>\$ 498</b>	<b>\$ 72</b>

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**Forestry Innovation Investment Ltd.**  
**Notes to the Consolidated Financial Statements**

(in thousands of dollars)  
March 31, 2020

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**11. Subsequent events**

On March 11, 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our operations are not known at this time. These impacts could include potential future decreases in revenue. Management is closely monitoring the evolving situation and taking measures to mitigate potential negative impacts to the Company.

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**12. Comparative information**

Certain of the comparative figures have been reclassified to conform to the classifications used in the current year.

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## Appendix A: Additional Information

### Organizational Overview

FII works with the forest industry, B.C. Government ministries, the Government of Canada, research institutions and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value for the B.C. public and stakeholders, FII uses a joint delivery model for program delivery. This approach takes advantage of industry expertise and marketing networks and ensures that program costs are shared with other organizations.

Details on FII's mandate, its goals and values and its location and organizational structure, are available at [www.bcfii.ca](http://www.bcfii.ca), as are previous Service Plans and Annual Service Plan Reports. Also available on the site is additional information on FII and its programs and its partners, including an annual [Year in Review](#) document that highlights accomplishments of the program in major markets around the world.

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

### Corporate Governance

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

The Board incorporates best practices into its governance procedures as guided by the Best Practices Guidelines on Governance and Disclosure for Public Sector Organizations. As recommended in the guidelines, FII's disclosure is available on the Company's website at <https://www.bcfii.ca/about-fii/governance>.

Full details on FII's governance principles, the role and membership of the Board of Directors, as well as corporate reports and details on compliance to the requirements of the Crown Agencies and Board Resourcing Office, are available at <https://www.bcfii.ca/about-fii/governance>. FII is in full compliance with Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations.

FII is committed to providing a healthy, safe and inclusive workplace where respect and diversity are recognized assets. In its hiring practices, FII encourages and welcomes applications from qualified; women, visible minorities, Indigenous Peoples, individuals with disabilities, persons of any sexual orientation or gender identity and all people committed to meaningful work that makes a difference.

## **Contact Information**

For more information on Forestry Innovation Investment Ltd. contact:

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604-685-7507

[info@bcfii.ca](mailto:info@bcfii.ca)

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

## Appendix B: Subsidiaries and Operating Segments

### Active Subsidiaries

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

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

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

*Governance:* Sole Executive Director: Michael Loseth, FII President & CEO

*Senior Management:* Guoli Liu, Senior Director, Government Relations

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting (Shanghai) Co. Ltd. are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd.

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

### Financial Summary – FII Consulting (Shanghai) Co. Ltd.

\$000	2018/19 Actual	2019/20 Budget	2019/20 Actual
<b>Total Revenues</b>	2,470	2,300	2,357
<b>Total Expenses<sup>(1)</sup></b>	2,470	2,300	2,357
<b>Net Income</b>	<b>0</b>	<b>0</b>	<b>0</b>

(1) Additional expenditures above those budgeted in service plan 19/20 relate to project opportunities which came up during the year which were able to be funded by moneys turned back from other programs.

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

*Primary business:* Supporting the development of the Indian market for B.C. forest products through market research, promoting B.C. wood products and related technologies, undertaking product trials and demonstration work, and leading communication and education outreach efforts to enhance awareness of B.C. and Canadian softwood species in India.

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

*Governance:* Four-member Board of Directors:

- Michael Loseth (Chair), FII President & CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Pranesh Chhibber, FII India Country Director
- David Fisher, VP International Marketing

*Senior Management:* Pranesh Chhibber, Country Director, FII India

*Strategic Direction and Operating Environment:* The business activities and priorities of FII Consulting India Private Limited are fully consistent with the mandate, strategic priorities and fiscal plan of FII Ltd.

*Risk Management:* FII funds its market development programming in India from Canada and, as a result, FII is subject to foreign exchange risk through its program advances to its subsidiary companies. Program costs for its subsidiaries are denominated in Indian Rupees. FII manages its exposure to currency risk by monitoring assets and liabilities denominated in these foreign currencies and by purchasing foreign denominated currency when market conditions are favourable.

### Financial Summary – FII Consulting India Private Limited

\$ millions	2018/19 Actual	2019/20 Budget	2019/20 Actual
<b>Total Revenues</b>	3,680	4,300	4,071
<b>Total Expenses<sup>(1)</sup></b>	3,680	4,300	4,071
<b>Net Income</b>	<b>0</b>	<b>0</b>	<b>0</b>

(1) Additional costs relate to opportunities taken to conduct product trials for Wood in Construction which were able to be funded by moneys turned back from other programs.

### Inactive Subsidiaries

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