

Forestry Innovation Investment Ltd.

2017/18
ANNUAL SERVICE PLAN REPORT

July 2018



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Board Chair's Accountability Statement



I am pleased to submit Forestry Innovation Investment's *2017/18 Annual Service Plan Report*. The *2017/18 Annual Service Plan Report* was prepared under the Board's direction and in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles.

The *Forestry Innovation Investment 2017/2018 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2017/18 - 2019/20 Service Plan* created in September 2017. I am accountable for those results as reported.

A handwritten signature in blue ink, appearing to read 'Tim Sheldon', with a stylized flourish at the end.

Tim Sheldon
Board Chair

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Chair/CEO Report Letter



In 2017/18, 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 2017/18 [Mandate Letter](#) from the Minister of Jobs, Trade and Technology (MJTT).



Early in the year, FII worked with MJTT to establish a framework for strategic and proactive engagement that included holding quarterly meetings between the Minister and Deputy Minister of MJTT, and the FII Board Chair and President and CEO. The engagement framework also included coordination between FII's communications and program staff and their counterparts in Government Communications and Public Engagement in both MJTT and the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (MFLNRORD). Together, these engagements helped ensure that an ongoing reporting cycle was maintained between FII and MJTT, and that FII remained aligned with MJTT with respect to progress in meeting the obligations established by Government.

In 2017/18, FII also worked with the Government's Crown Agencies and Board Resourcing Office to complete one new appointment and five re-appointments to the FII Board of Directors. An updated Board member orientation package and a comprehensive briefing on the organization were provided to the new director to ensure a thorough understanding of FII's operations and of the specific responsibilities associated with membership on the Board. Information on FII's governance, including links to Board composition, is included in Appendix A.

A number of international and domestic trends challenged forest sector performance in 2017/18. Among these were heightened protectionism in key markets, aggressive competition from suppliers in Russia and Europe, and growing supply constraints brought on by wildfires and reductions in B.C.'s post-mountain pine beetle harvest. At the same time, strengthening demand in the US market for lumber, rising international interest in the use of wood for taller and more complex structures, and a growing focus on the climate impacts of carbon in the built environment created new momentum in the sector. The need to respond to these dynamics continues to underscore the importance of FII's work to diversify markets for, and foster innovation in, the B.C. forest sector. FII's programming, which directly responds to the Government's priority to build a strong sustainable and innovative economy, is paving the way for greater innovation in wood products and building systems here in B.C., and for these products and systems to be marketed around the world. From completion of the Brock Commons student residence at UBC -- now the world's tallest wood structure at 18 storeys -- to building new markets for B.C.'s sustainably managed forest products in China, to the completion of FII's first major commercial demonstration project in India earlier this year, B.C. is positioning itself as a leader in bringing high quality, innovative products to local and global markets.

We are pleased to report that in all operations during the year, FII demonstrated efficiency, accountability and integrity in the delivery of its programs, and in managing relationships with stakeholders inside and outside the provincial government. The Company concluded the year having met all of its obligations as set out in the 2017/18 Mandate Letter and having achieved the core performance plan targets established in the Company's [2017/18 - 2019/20 Service Plan](#).

Purpose of the Organization

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

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

Together with the forest industry, the Government of Canada, provincial ministries and agencies, research institutions, and other stakeholders, FII works to deliver forward looking, innovative market development programs in B.C. and in markets around the world. To provide the best value to taxpayers and stakeholders, and reflecting the direction provided in FII's 2017/18 Mandate Letter, 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 US, China and Japan, while promoting the use of B.C. products in high potential, emerging markets, such as India. This approach takes advantage of partner expertise and marketing networks and ensures that program costs are shared with other organizations, including 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 and Operating Environment

FII works with the forest industry, provincial ministries, other levels of government and with the research community to develop and diversify markets for B.C. forest products while promoting B.C. as a world-class supplier of environmentally friendly forest products. In 2017/18, FII's operations were aligned with the Government's strategic direction to the Ministry of Jobs, Trade and Technology (MJTT); the Ministry of Forests, Lands, Natural Resource Operations and Rural Development (MFLNRORD); and the Minister of State for Trade (MST) to:

- Increase employment in the forestry and innovative wood manufacturing sectors;
- Develop B.C.'s international trade relations;
- Expand efforts to market innovative manufactured wood products to world markets; and
- Promote the use of wood in public construction projects.

By aligning near- and long-term activities with those of Government, FII ensured that its programs and services fully supported the Government's key priority for the B.C. economy as set out in FII's 2017/18 Mandate Letter:

Government Priority	FII Aligned with This Priority By:
A strong, sustainable economy	<p>Collaborating with industry, government and institutional partners to deliver a suite of programs and activities focused on three complementary goals¹:</p> <ul style="list-style-type: none"> • position B.C. as a reliable global supplier of quality building products from sustainably managed forests (Goal 1); • ensure returns from B.C.'s conventional and next generation forest products are optimized in markets offering high potential (Goal 2); and • establish B.C. as a leader in using innovative forest products and building systems (Goal 3).

Throughout the year, FII focused on delivering against the goals, strategies and performance metrics in the 2017/18 – 2019/20 Service Plan. FII also supported MFLNRORD in delivering on its mandate to foster greater innovation in the wood products sector, and with MFLNRORD, MJTT and industry stakeholders as part of the government-industry Wood Secretariat established to promote the value-added and specialty wood manufacturing sector in B.C.

Operating Environment

As B.C.'s domestic consumption of forest products is relatively small, the province's forest sector relies heavily on developing and maintaining export markets to sustain sales, jobs and growth. This reliance on export markets makes the B.C. industry susceptible to shifts in global economic and trade dynamics. In 2017/18, these dynamics included changes in the relative values of currencies, trade actions that thickened borders -- particularly in North America -- and natural disasters such as wildfires and hurricanes that disrupted the supply and distribution of forest products in Canada and the US. Mitigating risk to the sector by diversifying markets and products remains at the core of FII's market development programs.

¹ For a detailed description of FII's goals and objectives in support of the Government's priorities, refer to the Report on Performance section beginning on page 10.

Despite political uncertainty in many regions, global trade in softwood lumber reached an all-time high in 2017/18 as growth returned to the world's major economies. The result was strong demand for wood in most regions, including in B.C.'s key export markets for lumber in the US, Canada, China, Japan and Europe. While overall demand in North America was up, markets for wood products in Canada and the US were buffeted by a series of domestic supply disruptions related to wildfires, logistics challenges in the transportation network, and trade actions initiated by the US government as part of the ongoing Canada-US softwood lumber dispute.

The initiation of preliminary import duties on Canadian lumber shipments to the U.S. announced early in the year and made retroactive to January 2017, created turmoil in North American markets. The final duties, which for B.C. producers range from 23.56 per cent to 20.23 per cent², contributed to a sharp increase in prices as Canadian producers were successful in passing the cost of the duties on to their customers. While strengthening demand in the US has allowed the B.C. industry to weather the duties to-date, the unresolved dispute poses a significant medium- to long-term threat to the sector.

In Asia, the demand for wood remained strong during the year, particularly in B.C.'s largest markets, China and Japan. In China, B.C.'s largest offshore market, prices for softwood lumber rose, but not enough to keep some B.C. exports from shifting into the US market. The higher prices for lumber in China did, however, moderate this shift, and helped B.C.'s price per cubic meter of lumber exported to China – a performance metric for FII – rise during the year (refer Report on Performance, Performance Measure 3). A particularly positive development has been the Chinese Government's growing acceptance and promotion of wood as a low-carbon, green building material. This policy shift is opening the door to a host of potential opportunities for B.C. lumber to help China meet its demand for greener construction and to supply the Chinese manufacturing sector with environmentally friendly, sustainably managed forest products.

In Japan, B.C.'s second largest market in Asia, demand for wood products grew for the second consecutive year, attracting increased competition from the Nordic countries led by Sweden and Finland, and expanding Japanese domestic production. Despite the increase in competition, the overall value of B.C.'s lumber exports to Japan increased by two per cent during 2017, with values continuing to climb across the first two months of 2018. FII's investments in Japan programming in 2017/18 focused on developing new opportunities for the B.C. forest sector in emerging, high-potential segments, including non-residential construction and tourism development.

In India, an emerging high-potential market for the B.C. forest industry, new opportunities for softwood lumber species are being developed through aggressive market entry work. Led by FII and the B.C. forest industry, and with funding support from the Government of Canada, the market development program in India is generating widespread awareness of Canadian wood products and, increasingly, commercial orders.

Here in North America, a range of next generation wood technologies and building systems is allowing for ever taller and larger wood buildings to be constructed, a trend that is being spearheaded by innovative manufacturers, architects and builders in B.C. and exported globally. With funding support from FII's Wood First program, and in collaboration with industry, research institutions and

² Final Canadian lumber import duties to the U.S. (combined countervail and anti-dumping) for B.C. companies are: West Fraser (23.56%), Tolko (22.07%) and Canfor (20.52%). All other B.C. companies (20.23%).

government agencies, B.C. is solidifying its position as a technical leader in this emerging area, and as a global showcase for how wood design can help reduce the carbon footprint of the built environment. Communicating the environmental merits of wood and wood construction also formed the basis of a focused, strategic campaign designed and delivered by FII in the key US market. “Think Wood” is a communications platform that presents the value proposition for wood products in the multi-billion dollar US multi-family and non-residential construction market. In 2017/18, the U.S. softwood lumber industry funded 85 per cent of the Think Wood program, demonstrating the continued confidence that FII’s partners place in the Company’s ability to design and deliver world-class marketing programs.

Report on Performance

The goals, strategies, measures and targets pursued by FII during the year align with Government’s strategic priorities as articulated in FII’s 2017/18 Mandate Letter and in the Mandate Letters of MJTT, MFLNRORD and MST. The goals, strategies, measures and targets are also fully consistent with FII’s Board-approved five-year [strategic plan](#), and with the MJTT and MFLRORD annual service plans.

To ensure that FII’s goals, strategies, measures and targets remained aligned with, and supportive of, Government’s priorities, FII maintained ongoing engagement throughout the year with its responsible Ministry, MJTT. Performance was reported through quarterly meetings with the Minister, and by way of reports tabled at all regular meetings of the FII Board.

Goals, Strategies, Measures and Targets

In 2017/18, FII’s investments focused on advancing forest sector innovation in B.C., and on 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. Combined with aggressive efforts to penetrate new markets such as India, these efforts are helping to revitalize the forest sector, generating new wealth, more skilled jobs and greater stability for communities and workers.

The following describes the specific goals, strategies and performance targets pursued by FII during 2017/18. More detailed descriptions of programs, activities and the FII business model can be found at www.bcfii.ca and in the Company’s annual [Year in Review](#).

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

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

Goal 1 focuses on taking advantage of two significant trends in the marketplace: the emerging recognition of wood products as “green” and increasing demands 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 lumber, value-added and pulp-and-paper products from B.C. are manufactured by an industry that has made impressive gains in reducing its environmental footprint.

Strategies in support of this goal are designed to build on the growing awareness of the benefits of wood products, and to position B.C. as a reliable supplier of quality forest products and a global leader in sustaining forest resources and environmental values. This dual positioning will help strengthen awareness of, and interest in, B.C. forest products in major markets; thus, support greater market share, premium positioning and easier access to new markets.

Strategies

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

Performance Measure 1: Customer Perceptions of B.C. Forest Products.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Percent of customers who perceive that forest products from B.C. are a good choice for the environment ¹	96%	N/A	90%	99%	N/A	90%

Data Source: Leger -The Research Intelligence Group. *Analysis of Market Acceptance Issues*, January 2018.

¹ Surveys are conducted biennially.

Discussion

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

The 99 per cent result in the 2017/18 survey reflects increased interest and awareness by Asian companies seeking sustainability assurances related to legal logging, forest certification systems and the merits of building with wood--such as energy efficiency and greenhouse gas mitigation--in addition to an increase in positive perception in the U.S.

Performance Measure 2: Prospects Connecting with B.C. Manufacturers.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Number of prospects connecting with B.C. manufacturers from the naturallywood.com Supplier Directory, an online platform developed by FII ¹	N/A	13,027	13,250	13,864	13,500	14,000

Data Source: FII / Google Analytics.

¹Performance measure 2 was a new metric in 2016/17.

Discussion

Performance measure 2 links FII's outreach and communications activities to the objective of increasing sales of B.C. forest products. FII, through the [naturally:wood](#) information resource and related paid media, works to promote B.C. forest products and suppliers by featuring the Supplier Directory. The performance metric tracks the number of visitors to the website and the number of those visitors that link through to a supplier email address or website. Collecting data on connections made to suppliers tracks the effectiveness of FII's online product and supplier sourcing tool—the Supplier Directory—in increasing awareness of, and interest in, B.C.'s forest products by advancing connections with B.C. companies for potential commercial opportunities.

From April 1, 2017 to March 31, 2018, a total of 13,864 supplier interactions were made, which exceeded the target by over 600 connections. Increased promotion efforts by the Market Outreach program later in the year, more than offset the impacts of the media and promotion blackout from April to September related to the provincial election.

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. The 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. The goal places particular priority on high-potential markets in Asia and on emerging segments of the construction market in the U.S. The efforts of FII and its funding recipients 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 goal 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 such as North America.

Strategies under this goal include a mix of activities delivered by third parties and by FII³.

Strategies

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

³ FII collaborates with industry trade associations, the federal government and other funding bodies to leverage its investments for the greatest potential return for B.C. FII's objective is to strengthen demand for B.C. forest products and expand potential end-use applications.

Performance Measure 3: Average Value Generated by Lumber Sales to China⁴.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Average value (CAD, millions) per cubic metre generated by softwood lumber sales to China ¹	N/A	174	196	197	200	204

Data Source: FII

¹ Performance measure 3 was a new metric in 2016/17. Average per cubic metre value of exports is based on Statistics Canada annual export data compiled by BC Stats for 2017 (January through December) and is calculated by total value of lumber exported divided by the total volume of exports measured in cubic metres. The ability to achieve performance measure 3 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures linked to FII's broader goals and targets are set for each project. For more details, please refer to FII's Performance Management Framework.

Discussion

The measure tracks the extent to which the B.C. forest industry is successful in diversifying markets, with a particular focus on Asia. 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. Value per cubic metre reflects demand for higher-grade lumber used in construction—a key objective of the government-industry program in China.

While B.C.'s total volume of shipments to China declined 8.8 per cent during the year, average value per cubic metre rose 12.6 per cent reflecting higher overall prices for lumber in China (refer also to the discussion in "Operating Environment" on page 6). This met the value target and performance objectives set for the year.

Performance Measure 4: Product Trials in India.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Total number of product trials of B.C. species undertaken in India	8	15	18	23	24	26

Data Source: FII

Discussion

India is a new market for B.C. wood product companies, and market development efforts in 2017/18 remained in the pre-commercial stage. 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, and

⁴ Performance metrics are tracked for China and India (see also performance measure 4) reflecting FII's direct operations and program delivery in those two markets. In Asia, in addition to China and India, FII also tracks and reports out on data and trends in all other key markets, including Japan and South Korea.

efforts in this continued to accelerate during the year. Under the *Try Canadian Wood* program, FII provided 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. Trials completed in 2017/18 resulted in a range of furniture and interior finishing products being produced using B.C. wood species. A number of these trials resulted in repeat commercial orders for B.C. lumber species, including hemlock, Douglas fir, western red cedar, yellow cedar and spruce-pine-fir. Performance measure 4 directly reflects the interest of the Indian industry to try B.C. species, which is a key objective in early market development efforts.

The expansion of the FII India teams in the north and south of India which was completed during the year during allowed the program to accelerate the number of annual product trials and exceed the target set for the year. A total of 63 product trials have been completed since the effort launched in 2015/16 with many more in various stages of development in centres around India.

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

Performance Measure 5: Sales in the U.S. Non-Residential and Multi-Storey/Multi-Family Segment.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Total sales (USD, millions) of wood attributable to program interventions – U.S. non-residential and multi-storey/multi-family residential construction markets ¹	N/A	128	130	157	144	158

Data Source: FII

¹ Performance measure 5 was a new metric in 2016/17. The ability to achieve performance measures 5 is contingent upon the efficacy of market development programs delivered in whole, or in part, by trade associations partially funded by FII. As part of the funding approval process, specific performance measures—linked to FII's broader goals and targets—are set for each project. For more details, please refer to FII's Performance Management Framework.

Discussion

This measure tracks success in increasing wood usage in the US in commercial, institutional and multi-family residential/mid-rise segment. Most single-family housing in North America uses wood frame construction as the primary building method; however, wood has a smaller share of non-residential structures and of multi-storey, multi-family residences. The forest industry in B.C., the rest of Canada and in the U.S. has a strong interest in seeing wood products secure a much higher market penetration in this segment. To this end, FII supported the U.S. [WoodWorks](#) program in 2017/18 to deliver activities that assist architects, engineers, builders and developers to incorporate more wood into their projects, as well as convert their projects to wood from other materials. During the year, these efforts focused on a range of building types, including multi-storey/multi-family, non-residential and taller buildings. This diversification strategy helped 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 target for performance measure 5 was exceeded in 2017/18 due to growing interest in taller wood-frame residential buildings, including 5- and 6-over 2 multi-family podium projects⁵.

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

This goal supports the Government of B.C.'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.

Long-term sustainability of the forest economy requires the active maintenance, creation and diversification of demand for B.C. forest products. By introducing new and advanced forest products, wood technologies and building systems, wood can be 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 utilized in construction, interior design, and daily living, at home and abroad.

Strategies incorporated under Goal 3 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.

Strategies

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

Performance Measure 6: Incremental Value of Wood Consumed in B.C.'s Non-Residential and Multi-Storey/Multi-Family Construction Sector.

Performance Measure	2015/16 Actuals	2016/17 Actuals	2017/18 Target²	2017/18 Actuals	2018/19 Target	2019/20 Target
Total sales (CAD, millions) of wood attributable to program interventions – B.C.'s non-residential and multi-storey/multi-family residential construction markets ¹	N/A	60	53	53	58	63 or greater

⁵ Five or six storeys of wood construction built on top of two storeys built in concrete.

Data Source: Canadian Wood Council's Wood *WORKS!* BC Program.

¹ Performance measure 6 was a new metric in 2016/17. The ability to achieve performance measure 6 is contingent upon the performance of FII's funding recipients in their delivery of Wood First programming and on other external factors impacting construction activity in B.C., such as the level of real estate investment and the process for approving and implementing building code changes. Timely funding decisions by FII ensure that funding is available to successful proponents by the start of each fiscal year. As part of the funding approval process, performance measures are established for each project. These measures are directly linked to FII's broader goals and targets. For more details, please see FII's Performance Management Framework.

² The methodology used to generate attributable wood values was revised in 2017 to align with similar programs in North America. The targets for 2017/18 and beyond were adjusted in the 2017/18 – 2019/20 Service Plan.

Discussion

This measure tracks success in increasing wood usage in B.C. in the commercial, institutional and multi-family residential/mid-rise segment. The target is based on the incremental increase in the value of wood sales that are generated in the year and influenced by program activities funded by FII and its funding partners. In 2017/18, these Wood First program activities focused on delivering promotional, research, educational and capacity-building initiatives throughout the province.

To effectively deliver its Wood First mandate during the year, FII worked extensively with research institutions and service delivery organizations to promote integrated planning and coordinated delivery of program activities and initiatives. An independent Wood First Advisory Committee, made up of senior industry executives, provided strategic guidance on program implementation priorities. The target for performance measure 6 was achieved in 2017/18 as 65 projects were converted to wood during the year. These 65 projects resulted in an incremental \$53 million of wood use. The largest share of these buildings are in building classification type "C" (apartments/hotel buildings) at 57 per cent, followed by type A2 (community/lecture halls, gymnasias, schools, restaurants, libraries) at 26 per cent.

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

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

Consistent with the strategic direction of Government set out in FII's 2017/18 Mandate Letter, FII continues to place significant emphasis on delivering its primary programs and services in collaboration with the forest industry, the federal government, the research community and other provincial agencies, including MFLNRORD and MJTT. By partnering with forest sector organizations in Canada and abroad, FII is able to leverage their expertise and financial resources to create and deliver strategic and focused market development programming that provides the highest value for the B.C. forest sector.

Strategies

- Ensure FII is efficient, transparent and results-focused by:
 - Keeping corporate support costs at or below seven per cent of the total budget;
 - Implementing a rigorous performance management system; and
 - Monitoring and auditing funded projects according to explicit risk assessments.
- Work with MJTT and MFLNRORD to ensure ongoing engagement and program alignment.
- Continuously review priorities and strategies to ensure that programs and services stimulate innovation in products and markets and are delivered in an effective and cost-efficient manner.
- Minimize FII's carbon footprint and promote environmentally-responsible business activities.

Performance Measure 7: Leveraged Funding.

Performance Measures	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Other organizations' aggregate contribution to recipient funding program ¹	68%	69%	65%	72%	65%	65%

Data Source: Data to support performance measure 7 are sourced from FII's on-line recipient funding system, which is co-funded and managed by FII and Natural Resources Canada, and through FII's year-end financial reporting.

¹ In its recipient-funding program, FII targets annual contributions of approximately 65% from other organizations; however, contributions from others vary from 0 to 85%, depending on the specific activity. Contributions from individual organizations can also fluctuate considerably across fiscal years, depending on their programming priorities and budgets.

Discussion

This measure tracks the effectiveness of FII in securing external resources to deliver market development programs at the lowest possible cost to B.C. taxpayers, a key efficiency objective of the Government. 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.

During the year, FII allocated a total of \$8.4 million to third party organizations to deliver market development activities in China, Japan, Korea and India in Asia; and the U.S. and Canada in North America. This funding from FII leveraged an additional \$20.2 million in federal and industry contributions, or 72 per cent of the total delivered recipient program. This exceeded the target set for the year. While the proportion of funds received from industry and the federal government varies by market and type of activity, FII's goal is to maintain an average of 65 per cent "other" funding in the program.⁶

⁶ 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.

In addition to the contributions of others to the ongoing recipient program, FII also draws other leveraged funding for its market development programming. For 2017/18, other funding included:

- \$1.70 million from Natural Resources Canada for the India market development initiative and other co-funded programs; and
- \$2.91 million from the US-based Softwood Lumber Board to support FII's delivery of the Think Wood initiative aimed at encouraging US design professionals to adopt new wood-based building technologies.⁷

Financial Report

Discussion of Results

The following table summarizes the revenue that FII anticipated at the start of 2017/18 and the actual revenue for the year:

Source	\$ million	
	2017/18 Budget	2017/18 Actual
The Province of British Columbia	19.1	19.3
Natural Resources Canada	0.7	1.7
Other	<u>2.5</u>	<u>3.2</u> *
TOTAL	22.3	24.2

*The increase in other funding relates to additional funds received from Softwood Lumber Board for the Think Wood initiative

In 2017/18 FII continued to leverage substantial funds from the Government of Canada. Natural Resources Canada (NRCan) provided \$1,048,000 to support FII India, and a further \$620,000 to support other market development initiatives.

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

In 2017/18, the funds that FII provided to other organizations through competitive Calls for Proposals amounted to approximately 35 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 \$350,000; \$150,000 of which was funding that recipients returned to FII because they cancelled or postponed projects that FII had agreed to cost-share. The balance of the surplus was from FII direct delivered projects that did not materialize and from a year-end foreign exchange gain on transactions with the Company's two foreign subsidiaries.

⁷ FII contributed \$494,000 to the Think Wood initiative in 2017/18, for a total of \$3.4 million.

Financial Resource Summary Table

\$ millions	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget	2017/18 Actual	2017/18 Variance
Operating Revenue						
Contribution from Province	16.81	17.56	18.46	19.05	19.28	.23
Contribution from Federal Government	1.03	.82	.83	.70	1.67	.97
Other Income	.76	2.70	2.92	2.56	3.28	.72
Total Revenue	18.60	21.08	22.21	22.31	24.23	1.92
Operating Expenses						
Market Outreach & Initiatives	12.27	14.30	15.71	14.81	16.52	1.71
China – Market Development	3.01	3.17	2.22	2.30	2.41	.11
India – Market Development	1.95	1.99	2.71	3.81	3.46	(.35)
Corporate Support	1.23	1.18	1.30	1.39	1.49	.10
Total Expenses	18.46	20.64	21.94	22.31	23.88	1.57
Net Income from Operations	.14	.44	.27	0	.35	.35
Capital Expenditures	.47	.35	.17	.05	.06	.01
Total Liabilities	2.91	2.49	3.20	2.38	3.33	.95
Accumulated Surplus/ Retained Earnings	2.36	2.81	3.08	3.08	3.43	.35

Note 1: The above financial information was prepared based on current Generally Accepted Accounting Principles.

Note 2: The budgets in these columns have been taken from the FII Service Plan published in September 2017; over time, changes to these numbers can be anticipated.

Variance and Trend Analysis

The increase in Receipts–Government–Other relates to additional monies received from Natural Resources Canada (NRCan): \$448,000 for the India Initiative and \$620,000 provided towards other FII direct delivered projects. The increase in Other Revenue relates to additional funds received from the Softwood Lumber Board for the Think Wood initiative.

Increased spending in the Market Outreach & Initiatives program came from additional funding received from NRCan and the Softwood Lumber Board.

Risks and Uncertainties

FII funds extensive market development programming in off-shore 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 the U.S. dollar has increased exchange rate risk.

Auditor's Report



Independent Auditor's Report

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To the Board of Directors of
Forestry Innovation Investment Ltd.

To the Minister of International Trade,
Province of British Columbia

We have audited the accompanying consolidated financial statements of Forestry Innovation Investment Ltd., which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations and accumulated surplus, changes in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

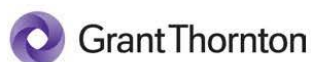
Auditor's responsibility

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

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

1

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

Opinion

In our opinion, the consolidated financial statements of Forestry Innovation Investment Ltd. for the year ended March 31, 2018 are prepared, in all material respects, in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of matter

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

Vancouver, Canada
June 5, 2018

Grant Thornton LLP

Chartered Professional Accountants

Audited Financial Statements



Consolidated Financial Statements

Forestry Innovation Investment Ltd.

March 31, 2018

Forestry Innovation Investment Ltd.

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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, 2018 and the consolidated statement of operations, change in net assets, and cash flow for the year ending March 31, 2018 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 Loeth
Chief Executive Officer

Douglas Greig
Vice President & CFO

Vancouver, British Columbia
June 5, 2018

Forestry Innovation Investment Ltd. Consolidated Statement of Financial Position

(in thousands of dollars)

March 31

2018

2017

	Note		
Financial assets			
Cash and cash equivalents		\$ 4,031	\$ 4,018
Accounts receivable		882	605
Short term investments		201	-
Recipient advances	4	117	7
Due from Province of British Columbia		17	16
Due from other governments		454	283
Total financial assets		5,702	4,929
Liabilities			
Accounts payable and accrued liabilities	3	2,060	1,429
Due to Province of British Columbia		1	6
Due to other governments		181	123
Recipient payables	4	370	358
Deferred contributions	6	717	1,280
Total liabilities		3,329	3,196
Net financial assets		2,373	1,733
Non-financial assets			
Tangible capital assets	7	400	671
Prepaid expenses		652	671
Total non-financial assets		1,052	1,342
Accumulated surplus		\$ 3,425	\$ 3,075

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	2018	2017
	Note			
Revenue	10			
Government contributions				
Provincial		\$ 19,050	\$ 19,278	\$ 18,459
Federal		700	1,668	832
Other revenue		2,560	3,199	2,860
Investment income		-	81	56
		<u>22,310</u>	<u>24,226</u>	<u>22,207</u>
Expenses	10			
Funding recipient initiatives		8,943	9,354	9,886
Market initiatives and outreach				
FII Vancouver		5,863	7,163	5,827
FII China		2,300	2,414	2,219
FII India		3,810	3,458	2,714
Corporate services		1,394	1,487	1,297
		<u>22,310</u>	<u>23,876</u>	<u>21,943</u>
Annual surplus		-	350	264
Accumulated surplus, beginning of year		<u>3,075</u>	<u>3,075</u>	<u>2,811</u>
Accumulated surplus, end of year		<u>\$ 3,075</u>	<u>\$ 3,425</u>	<u>\$ 3,075</u>

See accompanying notes to the consolidated financial statements.

4

Forestry Innovation Investment Ltd.				
Consolidated Statement of Changes in Net Financial Assets				
(in thousands of dollars)				
Year ended March 31	Budget	2018	2017	
Annual surplus	\$ -	\$ 350	\$ 264	
Acquisition of tangible capital assets	-	(60)	(172)	
Amortization of tangible capital assets	-	323	343	
Disposal of tangible capital assets	-	8	2	
(Acquisition) use of prepaid expenses	-	19	(91)	
Increase in net financial assets	-	640	346	
Net financial assets, beginning of year	1,733	1,733	1,387	
Net financial assets, end of year	\$ 1,733	\$ 2,373	\$ 1,733	

See accompanying notes to the consolidated financial statements.

5

Forestry Innovation Investment Ltd. Consolidated Statement of Cash Flows

(in thousands of dollars)

Year ended March 31

2018

2017

Cash provided by (used in):

Operating

Annual surplus	\$	350	\$	264
Items not involving cash				
Amortization of tangible capital assets		323		343
Amortization of deferred contributions		(799)		(630)
Loss on disposal of tangible capital assets		8		2
Change in accounts receivable		(277)		(134)
Change in recipient advances		(110)		63
Change in due from Province of British Columbia		(1)		7
Change in due from other governments		(171)		(82)
Change in accounts payable and accrued liabilities		631		351
Change in due to Province of British Columbia		(5)		2
Change in due to other governments		58		51
Change in recipient payables		12		51
Change in prepaid expenses		19		(91)
		<u>38</u>		<u>197</u>

Investing

Acquisition of tangible capital assets		(60)		(172)
Acquisition of short-term investments		(201)		-
		<u>(261)</u>		<u>(172)</u>

Financing

Receipt of deferred contributions		<u>236</u>		<u>878</u>
Increase in cash		13		903
Cash, beginning of year		<u>4,018</u>		<u>3,115</u>
Cash, end of year	\$	<u>4,031</u>	\$	<u>4,018</u>

See accompanying notes to the consolidated financial statements.

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Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

1. General

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

2. Summary of significant accounting policies

(a) Basis of presentation

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

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

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

The impact of this difference on the consolidated financial statements of the Company would be a decrease in deferred capital contributions as at March 31, 2018, and increases in revenues and annual surplus for the year then ended.

(b) Reporting entity and basis of consolidation

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

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

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

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.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

2. Summary of significant accounting policies (continued)

(f) Financial instruments (continued)

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

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

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

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

(g) Non-financial assets

(i) *Tangible capital assets*

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

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

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

(ii) *Contributions of tangible capital assets*

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

(iii) *Interest capitalization*

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

(iv) *Intangible assets*

Intangible assets are not recognized in these consolidated financial statements.

Forestry Innovation Investment Ltd.
Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

2. Summary of significant accounting policies (continued)

(h) Foreign currency translation

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

(i) Budget

Budget data presented in these consolidated financial statements are based on the Company's Service Plans. The budget was approved by the Board of Directors on June 1, 2017.

(j) Use of estimates

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

(k) Segment disclosures

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

(l) Financial assets

(i) Cash and cash equivalents

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

(i) Short term investments

Short term investments include term deposits measured at cost.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

3. Accounts payable and accrued liabilities	2018	2017
Trade payables	\$ 887	\$ 794
Accrued liabilities	1,173	635
	\$ 2,060	\$ 1,429

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, 2018, the Company has identified \$370 (2017 - \$358) as payable to the recipient organizations and \$117 (2017 - \$7) as receivable from the recipient organizations.

5. Pension plans

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

The most recent actuarial valuation for the Public Service Pension Plan as at March 31, 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, 2018, the Company paid \$193 (2017 - \$179) for employer contributions to the plan.

Forestry Innovation Investment Ltd. Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

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:

	Provincial	Other	2018	2017
Balance, beginning of year	\$ 612	\$ 668	\$ 1,280	\$ 1,032
Contributions received during the year	70	166	236	878
Amounts amortized to revenue	(328)	(471)	(799)	(630)
Balance, end of year	\$ 354	\$ 363	\$ 717	\$ 1,280

Included in Provincial deferred contributions is \$Nil (2017 - \$ Nil) that is unspent.

Forestry Innovation Investment Ltd. Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

7. Tangible capital assets

(a) Assets in use

Cost				
	2017	Additions	Disposals	2018
Computer equipment	\$ 683	\$ 51	\$ (40)	\$ 694
Computer software	55	-	-	55
Furniture and equipment	384	-	(4)	380
Leasehold improvements	1,105	9	-	1,114
Tradeshow booths	622	-	(45)	577
	<u>\$ 2,849</u>	<u>\$ 60</u>	<u>\$ (89)</u>	<u>\$ 2,820</u>
Accumulated amortization				
	2017	Amortization	Disposals	2018
Computer equipment	\$ 524	\$ 79	\$ (40)	\$ 563
Computer software	49	6	-	55
Furniture and equipment	300	33	(4)	329
Leasehold improvements	781	138	-	919
Tradeshow booths	524	67	(37)	554
	<u>\$ 2,178</u>	<u>\$ 323</u>	<u>\$ (81)</u>	<u>\$ 2,420</u>
Net book value				
	2017			2018
Computer equipment	\$ 159			\$ 131
Computer software	6			-
Furniture and equipment	84			51
Leasehold improvements	324			195
Tradeshow booths	98			23
	<u>\$ 671</u>			<u>\$ 400</u>

(b) Assets disclosed at nominal values

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

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

8. Commitments

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

2019	\$	1,237
2020		764
	\$	<u>2,001</u>

(b) The Company also has an obligation to pay \$1,978 (2017 - \$396) for contracts entered into and not yet completed at March 31, 2018.

(c) Cash consists of an operating line of credit with HSBC Bank of Canada with maximum available credit of \$2,000,000 which incurs interest at prime plus 0.5% per annum. As of March 31, 2018, no amounts have been withdrawn through the utilization of the credit line.

9. Financial instruments risk management

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

Credit risk

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

The Company is potentially exposed to credit risk through cash 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, 2018, 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	\$ 882	\$ -	\$ 882
Recipient advances	117	-	117
Due from Province of British Columbia	17	-	17
Due from other governments	454	-	454
	<u>\$ 1,470</u>	<u>\$ -</u>	<u>\$ 1,470</u>

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

(in thousands of dollars)

March 31, 2018

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 \$60 (2017 – \$109) foreign exchange gains.

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

2018				
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 269	\$ 235	\$ 68	\$ 572
Short term investment	-	-	201	201
Accounts receivable	-	2	739	741
Accounts payable	-	170	656	826
2017				
	USD denominated amounts in CAD	RMB denominated amounts in CAD	INR denominated amounts in CAD	CAD Total
Cash	\$ 332	\$ 430	\$ 65	\$ 827
Accounts receivable	-	-	263	263
Accounts payable	-	164	246	410

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9. Financial instruments risk management (continued)

Market risk (continued)

Interest rate risk

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

10. Segmented information

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

(a) Funding Recipient Initiatives

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

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

(b) Market Initiatives and Outreach Program

(i) FII Vancouver Initiatives

Internally directs delivered programs that:

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

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10. Segmented information (continued)

(b) Market Initiatives and Outreach Program (continued)

(i) FII Vancouver Initiatives (continued)

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

(ii) FII China Initiatives

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

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

(iii) FII India Initiatives

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

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

(c) Corporate services

Corporate services performs the following activities:

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

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10. Segmented information (continued)

	Funding Recipient Initiatives	Market Initiatives and Outreach			Corporate Services	2018 Total	2017 Total
		FII Vancouver	FII China	FII India			
Revenues							
Government contributions							
Provincial	\$ 8,946	\$ 3,463	\$ 2,375	\$ 3,128	\$ 1,366	\$ 19,278	\$ 18,459
Federal	257	363	-	1,048	-	1,668	832
Other revenue	-	2,955	5	230	9	3,199	2,860
Investment income	-	-	-	5	76	81	56
Total revenues	9,203	6,781	2,380	4,411	1,451	24,226	22,207
Expenses							
Amortization	-	8	75	143	97	323	343
Auditing	205	-	65	49	76	395	407
Grants	623	-	-	-	-	623	693
Office costs	38	288	338	482	222	1,368	1,169
Professional services	435	4,818	386	1,144	140	6,923	5,199
Program costs	7,750	162	110	162	(21)	8,163	8,860
Salaries, wages and benefits	303	1,764	1,187	1,066	833	5,153	4,492
Trade missions	-	11	34	-	-	45	23
Travel and business costs	-	112	219	412	140	883	757
Total expenses	9,354	7,163	2,414	3,458	1,487	23,876	21,943
Annual surplus (deficit)	\$ (151)	\$ (382)	\$ (34)	\$ 953	\$ (36)	\$ 350	\$ 264

Appendix A – Additional Information

Corporate Governance

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

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

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

Organizational Overview

FII works with the forest industry, the Government of Canada, research institutions, and other stakeholders to deliver forward looking, innovative market development programs. To provide the best value to taxpayers and stakeholders, and reflecting strategic direction to Crown Corporations contained in FII's 2017/18 Mandate Letter, FII uses a collaborative model for program delivery. This approach takes advantage of industry expertise and marketing networks, and ensures that program costs are shared with other organizations.

Details on the mandate of FII, its vision, mission and values, and its organizational structure are available at www.bcfii.ca as are previous Service Plans and Annual Reports. Also available on the site is additional information on FII, its programs and its partners, including an annual [*Year in Review*](#) that highlights accomplishments of the program in B.C. and in major markets around the world. Comprehensive information about B.C.'s sustainable forest management practices and products is available through FII's naturally:wood resource at www.naturallywood.com, with links to a comprehensive Suppliers' Directory and to many forest product companies and trade associations.

Contact Information

For more information on Forestry Innovation Investment Ltd. contact:

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www.bcfii.ca

Appendix B – Subsidiaries and Operating Segments

Active Subsidiaries

Forestry Innovation Investment Ltd. operates the following subsidiary companies:

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

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

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

Governance: Sole Executive Director: Michael Loseth, FII CEO

Senior Management: 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 downward trend in the value of the Canadian dollar against the U.S. dollar has increased FII's exchange rate risk as the value of the Chinese Renminbi is roughly pegged against the U.S. dollar. Consequently, increases or decreases in the value of the U.S. dollar relative to other currencies can affect the value of the Renminbi against the Canadian dollar.

Financial Resource Summary Table – FII Consulting (Shanghai) Co. Ltd.

(\$000)	2016/17 Actual	2017/18 Budget	2017/18 Actual
Total Revenue	2,219	2,300	2,414
Total Expenses	2,219	2,300	2,414
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	-	-	-

FII Consulting India Private Limited (jointly owned by Forestry Innovation Investment Ltd. and 0939031 B.C. Ltd.⁸)

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 structural and non-structural products.

Governance: Four-member Board of Directors:

- Michael Loseth (Chair), FII CEO
- Douglas Greig, FII Vice President and Chief Financial Officer
- Bruce St. John, FII Vice President International Marketing
- Pranesh Chhibber, FII India Country Director

Senior Management: Pranesh Chhibber, Country Director, FII India

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

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

Financial Resource Summary Table – FII Consulting India Private Limited

(\$000)	2016/17 Actual	2017/18 Budget	2017/18 Actual
Total Revenue	2,714	3,810	3,458
Total Expenses	2,714	3,810	3,458
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	-	-	-

⁸ This joint ownership exists to meet India's requirement that there be at least two shareholders of a foreign-owned company.

Inactive Subsidiaries

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