

Forestry Innovation Investment Ltd.
Financial Statements
March 31, 2008



Report of the
Office of the Auditor General
of British Columbia

*To the Board of Directors of
Forestry Innovation Investment Ltd., and*

*To the Minister of Forests and Range
Province of British Columbia:*

I have audited the balance sheet of Forestry Innovation Investment Ltd. as at March 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Forestry Innovation Investment Ltd. as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 9, 2008*

John Doyle, MBA, CA
Auditor General

Forestry Innovation Investment Ltd.

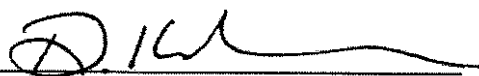
Balance Sheet


(in \$000s)

As at March 31	2008	2007
Assets		
Current assets		
Cash	4,809	5,833
Restricted cash held in trust (note 6)	379	390
Accounts receivable	507	210
Prepaid expenses	527	461
Program advances (note 2,7)	709	683
	<u>6,931</u>	<u>7,577</u>
Dream Home Canada (note 8)	2,397	3,767
Capital assets (Note 9)	689	889
	<u>10,017</u>	<u>12,233</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 2,10)	1,669	1,528
Restricted funds held in trust (note 6)	379	390
Program payables (note 7)	204	714
Due to the Province of British Columbia (note 2,11)	4,486	4,945
	<u>6,738</u>	<u>7,577</u>
Deferred revenue (note 12)	3,279	4,656
	<u>3,279</u>	<u>4,656</u>
Shareholders's equity		
Share capital (note 13)	-	-
Retained earnings	-	-
	<u>-</u>	<u>-</u>
	<u>10,017</u>	<u>12,233</u>

Commitments (note 14)

On behalf of the Board


Director


Director

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Forestry Innovation Investment Ltd.

Statement of Operations and Retained Earnings

(in \$000s)

For the year ended March 31	2008	2007
Revenue		
Contribution from the Province of British Columbia	23,408	23,367
	23,408	23,367
Program costs		
Market Development Programs		
Market Development	13,213	14,438
China Market Development	3,964	2,499
Mountain Pine Beetle	1,980	2,178
Total Market Development Programs	19,157	19,115
Market Outreach	2,587	2,434
Corporate Support	1,215	1,236
Amortization	449	582
	23,408	23,367
Excess of revenue over expenditures	-	-
Retained earnings end of the year	-	-

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Forestry Innovation Investment Ltd.

Statement of Cash Flows

(in \$000s)

For the year ended March 31	2008	2007
Cash flows used in operating activities:		
Excess of revenue over expenditures	-	-
Items not involving cash:		
Amortization of capital assets	449	582
Amortization of Dream Home Canada lease	1,370	342
	1,819	924
Changes in non-cash working capital	(1,217)	4,307
	602	5,231
Cash flows from investing activities:		
Dream Home Canada construction costs	-	(37)
Purchase of capital assets	(249)	(529)
	(249)	(566)
Cash flows from financing activities:		
Decrease in contributed surplus	-	-
Repayment of capital lease	-	-
Change in deferred revenue	(1,377)	(288)
	(1,377)	(288)
Decrease in cash during the year	(1,024)	4,377
Cash beginning of year	5,833	1,456
Cash end of year	4,809	5,833

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Forestry Innovation Investment Ltd.
Schedule of Expenditures by Business Segment
for the year ended March 31, 2008

(in 000's)

	Market Development	China Market Development	Mountain Pine Beetle	Market Outreach	Administration	2008 Total	2007 Total
Amortization	-	64	-	-	385	449	582
Auditing	252	5	-	-	35	292	150
Communications	62	-	-	-	16	78	110
Conferences and Trade Shows	1,122	117	-	499	-	1,738	2,127
Development Costs	-	-	-	-	-	-	47
Extraordinary Items	-	-	-	-	-	-	-
Grants	658	-	-	10	-	668	1,125
Marketing	-	263	-	-	-	263	234
Office	111	377	14	126	190	818	660
Lease Amortization	-	1,370	-	-	-	1,370	342
Performance Management	121	-	-	-	-	121	88
Professional Services	64	155	-	135	117	471	730
Publishing	157	-	-	124	-	281	103
Strategy & Research Studies	483	136	1	881	-	1,501	1,054
Trade Missions	15	-	-	-	-	15	24
Travel & Business Costs	149	177	30	90	164	610	395
Wages and Benefits	495	572	95	415	673	2,250	1,808
Websites	20	-	-	45	-	65	15
Program Costs	9,504	792	1,840	262	20	12,418	13,773
Total	13,213	4,028	1,980	2,587	1,600	23,408	23,367

Forestry Innovation Investment Ltd.

Notes to the Financial Statements

March 31, 2008

(tabular amounts in \$000s)

1) Nature of business

Forestry Innovation Investment Ltd. (the Company), was incorporated on March 31, 2003 under the laws of British Columbia. A board of directors, all appointed by the government of British Columbia, governs the Company.

Market Development Program - uses project funding and partnerships with the Government of Canada, forest industry associations and research institutions, to:

- maintain and create opportunities for BC wood products in existing and emerging markets;
- ensure BC forest products have access to markets free from regulatory and other barriers;
- ensure buyers, 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, including products using pine harvested from mountain pine beetle-attacked forests; and,
- provide markets and audiences with information on the properties and qualities of BC's premier forest products as well as the BC companies that supply them.

Market Outreach Program - is an in-house FII program that provides international buyers and others with credible facts that BC forest products come from well-managed forests.

Environmental campaigns that promote misleading or incorrect information are quickly challenged by FII and its partners. They also monitor the development of draft legislation and procurement policies that could impair the flow of BC forest products into a particular market, making relevant officials aware of frequently unintended consequences if the legislation or policy is adopted.

The Company is exempt from federal and provincial income taxes.

Forestry Innovation Investment Ltd.

Notes to the Financial Statements

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2) Prior Year Adjustments

During the year, management identified the following:

- Certain program expenditures relating to recipient agreements that were previously expensed, that should have been recorded as program advances. The adjustment to reflect program advances has been applied retrospectively, which increased current assets and decreased program costs by \$683,408 at March 31, 2007.
- Certain program expenditures that should not have been accrued as payable. The adjustment to accruals has been applied retrospectively, which reduced accounts payable and accrued liabilities and program expenditures by \$379,238 at March 31, 2007.

The effect of these adjustments resulted in an increase in the amount due to the Province of British Columbia and a decrease in the contribution from the Province of British Columbia of \$1,062,646. There was no impact on net assets at March 31, 2007 or on net income for the year then ended. See below for detail by program area.

Program Area	2007
Market Development	916
Mountain Pine Beetle	33
Market Outreach	114
Total	<u>1,063</u>

3) Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Consolidation

In 2004, the Company incorporated FII Consulting (Shanghai) Co., Ltd., a wholly owned subsidiary registered under the laws of the People's Republic of China. Based in Shanghai the subsidiary administers market development programs on behalf of FII. Chinese law imposes restrictions on the distribution of earnings and assets from the subsidiary to its parent, hence FII Consulting (Shanghai) Co.'

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(tabular amounts in \$000s)

working capital has been disclosed as a program payable on the balance sheet (See Note 7).

b) **Asset Under Capital Lease**

The Company entered into an agreement with a development company in China with respect to the construction and lease back of a demonstration centre and wood frame construction villas called Dream Home Canada. Construction of this project was completed December 31, 2006. All costs were capitalized at that time and are now being expensed over a three-year period starting January 1, 2007.

c) **Capital assets**

Capital assets are recorded at cost and amortization is being calculated on the straight-line basis using the following rates:

Computer Equipment	3 years
Computer Software	2 years
Furniture and Equipment	5 years
Leasehold Improvements	Term of Lease
Trade Show Booths	3 years
Website development Costs	2 years

Assets costing less than \$1,000 are expensed in the year of acquisition.

d) **Revenue recognition**

Contributions from the Province of British Columbia are for specific purposes and as such are deferred and recognized as revenue as the expenses are incurred.

e) **Foreign currency translation**

Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date.

Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

f) **Use of estimates**

The preparation of financial statement in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

Forestry Innovation Investment Ltd.

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4) Change in Accounting Policy

Effective April 1, 2007 Forestry Innovation Investment Ltd. has adopted the new standard announced by the Canadian Institute of Chartered Accountants (CICA) Section 3855, *Financial Instruments – Recognition and Measurement*. Under the new standards, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities. Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity or as loans and receivables and financial liabilities not classified as held-for-trading will be measured at amortized cost. This accounting policy was adopted on a prospective basis with no restatement of prior period financial statements.

5) Financial instruments

As of March 31, 2008, Forestry Innovation Investment Ltd. has designated its Financial Instruments as follows:

Cash is classified as held for trading and measured at fair value and all gains and losses are included in income in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables, accrued liabilities, program payables and amounts due to related parties are classified as other financial liabilities and are also measured at amortized cost.

At March 31, 2007, the company's financial instruments includes cash, accounts receivable, amount due to the Province of British Columbia, accounts payable and accrued liabilities and program payables. The fair values of the company's financial instruments approximate carrying amounts due to their short-term nature. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

6) Restricted cash held in trust

In the previous year the company entered into a joint venture agreement with members of the "Programme for the Endorsement of Forest Certification" (PEFC), an organization promoting an internationally credible framework for forest certification schemes and initiatives in countries around the world. In conjunction with this effort, the company and its subsidiary, FII Consulting (Shanghai) Co., Ltd

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(tabular amounts in \$000s)

agreed to financially administer the moneys contributed to the program by the joint venture partners.

7) Program advances and payables

The company advances funds to recipient organizations during the year, based on recipient funding contracts, to carry out program activities. Historically these unspent advances have been repaid back to FII prior to the end of the first quarter of the new fiscal year after fourth quarter reports have been submitted and final audits have been completed. At March 31, 2008, \$709,000 has been identified as repayable by the recipients and has been set up as program advances (2007 - \$683,000).

Program payables at March 31, 2008 of \$204,000 (2007 - \$714,000) relate to the net working capital at March 31, 2008 of Forestry Innovation Investment Ltd.'s subsidiary company, FII Consulting (Shanghai) Co., Ltd. This amount represents the net amount payable for programs being carried out by the subsidiary. The balance of program payable to FII China is comprised of the following elements:

	2008	2007
Cash	(392)	(115)
Accounts receivable	(43)	(32)
Accounts payable	639	861
Total	204	714

8) Dream Home Canada

	2008	2007
Asset under capital lease	3,767	4,109
Amortization	(1,370)	(342)
	2,397	3,767

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9) Capital assets

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	449	287	162	231
Computer software	125	118	47	17
Furniture and equipment	275	161	114	133
Leasehold improvements	175	80	95	0
Tradeshow booths	1,504	1,272	232	499
Websites	471	392	79	9
	2,999	2,310	689	889

Cost 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 depreciated.

10) Accounts payable and accrued liabilities

	2008	2007
Trade payables	792	433
Accrued liabilities	877	1,095
	1,669	1,528

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(tabular amounts in \$000s)

11) Due to the Province of British Columbia

	2008	2007
Balance, beginning of the year	4,945	614
Funds received for current year operations	26,221	27,520
	<u>31,166</u>	<u>28,134</u>
Payments refunded back to the Province	(4,946)	(614)
Prior year program recoveries	0	205
Interest earned during the period	297	299
Program expenditures	(23,408)	(23,367)
Change in Dream Home Canada assets net of prepaid lease expense	1,370	305
Change in capital assets net of amortization	200	53
Advances against program expenditures	(193)	0
Adjustment to deferred revenue	0	(70)
Due to the Province end of the year	<u>4,486</u>	<u>4,945</u>

Change in Dream Home Canada assets net of prepaid lease expense represents construction costs during the year of \$0 (2007 - \$37,000) less lease expense of \$1,370,000 (2007 - \$342,000).

Change in capital assets net of amortization represents assets acquired during the year of \$249,000 (2007 - \$529,000) less amortization of \$449,000 (2007 - \$582,000)

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12) Deferred revenue

The company defers contributions received from the Province of British Columbia used for the acquisition of Dream Home Canada and capital assets and recognises the revenue as these assets are amortized. The Deferred revenue account, therefore, will increase by the purchase of assets and decrease by the amortization of those assets including Dream Home Canada prepaid lease expense.

	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	4,656	4,944
(Decrease)/Increase in Dream Home Canada construction costs net of prepaid lease expense	(1,370)	(305)
(Decrease)/Increase in capital assets net of amortization	(200)	(53)
Advances against program expenditures	193	0
Adjustment	0	70
Balance, end of the year	<u>3,279</u>	<u>4,656</u>

13) Share capital

The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Forests holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia.

14) Commitments

The Company has lease commitments for the premises it occupies at 1130 West Pender and kiosk space at the Tsawwassen Ferry Terminal as follows:

	<u>Lease Amount</u>
March 2009	179
March 2010	178
March 2011	161
March 2012	157
March 2013	118
	<u>793</u>

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The Company also has an obligation to pay \$385,312 in fiscal 2008/2009 for contracts entered into and not yet completed at March 31, 2008.

15) Related party transactions

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

16) Comparative Figures

Certain figures for 2007 have been reclassified to make their presentation consistent with that adopted in 2008.