

Forestry Innovation Investment Ltd.
Consolidated Financial Statements
March 31, 2009

Approved for Issuance on behalf of the Board of Directors



Report of the Auditor General
Of British Columbia

RECEIVED

JUN 18 2009

FORESTRY INNOVATION INVESTMENT

*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 consolidated balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2009, and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company'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 consolidated financial statements present fairly, in all material respects, the financial position of *Forestry Innovation Investment Ltd.* as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

John Doyle, MBA, CA
Auditor General

*Victoria, British Columbia
June 15, 2009*

Forestry Innovation Investment Ltd.

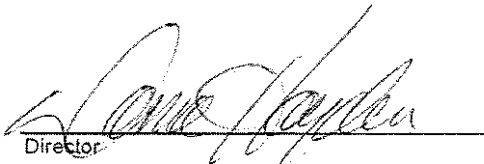
Consolidated Balance Sheet

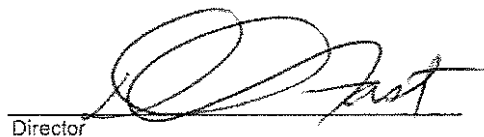
(in \$000s)

As at March 31	2009	2008
Assets		
Current assets		
Cash	1,689	4,809
Restricted cash held in trust (note 5)	352	379
Accounts receivable	396	507
Prepaid expenses	360	527
Program advances (note 6)	146	709
	2,943	6,931
Dream Home Canada (note 7)	1,003	2,397
Capital assets (Note 8)	812	689
	4,758	10,017
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	1,240	1,669
Restricted funds held in trust (note 5)	352	379
Program payables (note 6)	130	204
Due to the Province of British Columbia (note 10)	1,221	4,486
	2,943	6,738
Deferred revenue (note 11)	1,815	3,279
	1,815	3,279
Shareholders's equity		
Share capital (note 12)	-	-
Retained earnings	-	-
	-	-
	4,758	10,017

Commitments (note 13)

On behalf of the Board


 Director


 Director

Forestry Innovation Investment Ltd.

Consolidated Statement of Operations and Retained Earnings

(in \$000s)

For the year ended March 31	2009	2008
Revenue		
Contribution from the Province of British Columbia	24,377	23,408
Contribution for Wenchuan Reconstruction Projects (note 14)	1,700	-
	26,077	-
Program costs		
Market Development Programs		
Market Development	14,487	13,213
China - Market Development	4,227	3,964
China - Wenchuan Reconstruction Projects (note 14)	1,927	-
Product Development	1,700	1,980
	22,341	19,157
Market Outreach Program	2,154	2,587
Corporate Support	1,137	1,215
Amortization	445	449
	26,077	23,408
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.

Consolidated Schedule of Expenditures by Business Segment
for the year ended March 31, 2009

(in 000's)

	Market Development	China Market Development	Product Development	Market Outreach	Corporate Support	2009 Total	2008 Total
Amortization	-	67	-	-	378	445	449
Auditing	169	18	-	-	72	259	292
Communications	14	-	-	-	53	67	78
Conferences and Trade Shows	1,118	63	-	403	-	1,584	1,738
Grants	1,125	120	-	20	-	1,265	668
Marketing	-	52	-	91	-	143	263
Office	86	418	5	99	198	806	818
Lease Amortization	-	1,338	-	-	-	1,338	1,370
Performance Management	94	-	-	-	-	94	121
Professional Services	15	164	3	40	170	392	471
Publishing	163	-	-	70	-	233	281
Strategy & Research Studies	522	282	-	433	-	1,237	1,501
Trade Missions	19	-	-	-	-	19	15
Travel & Business Costs	137	163	36	70	107	513	610
Wages and Benefits	694	878	121	570	591	2,854	2,250
Websites	41	-	-	41	-	82	65
Program Costs	10,286	2,608	1,535	311	-	14,740	12,376
Exchange Gain/Loss	4	50	-	6	(54)	6	42
Total	14,487	6,221	1,700	2,154	1,515	26,077	23,408

Forestry Innovation Investment Ltd.

Consolidated Statement of Cash Flows

(in \$000s)

For the year ended March 31	2009	2008
Cash flows used in operating activities:		
Excess of revenue over expenditures	-	-
Items not involving cash:		
Amortization of capital assets	445	449
Amortization of Dream Home Canada lease	1,338	1,370
	1,783	1,819
Changes in non-cash working capital	(2,927)	(1,217)
	(1,144)	602
Cash flows from investing activities:		
Adjustment to Dream Home Canada prepaid lease (Note 7)	56	-
Purchase of capital assets	(568)	(249)
	(512)	(249)
Cash flows from financing activities:		
Change in deferred revenue	(1,464)	(1,377)
	(1,464)	(1,377)
Decrease in cash during the year	(3,120)	(1,024)
Cash beginning of year	4,809	5,833
Cash end of year	1,689	4,809

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

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(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 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 Market Outreach 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.

2) 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:

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

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 the Company. There are restrictions imposed on the distribution of earnings and assets from the subsidiary to its parent, hence FII Consulting (Shanghai) Co.'s working capital has been disclosed as a program payable on the balance sheet. All significant intercompany transactions and balances have been eliminated upon consolidation at year end. (See Note 6)

b) Financial Instruments

All financial assets and liabilities are initially measured at fair value. Measurement of the financial instruments in subsequent periods depends on their classification as described below.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income". Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

The Company has made the following classifications:

Cash and restricted cash held in trust are classified as held for trading and measured at fair value and all gains and losses are recognized in the period in which they occur. Accounts receivable and Program advances are classified as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payables and accrued liabilities, Restricted funds held in trust, Program payables and amounts Due to the Province of British Columbia are classified as other financial liabilities and are also measured at amortized cost using the effective interest method.

c) 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

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

and are being amortized as lease payments over a three-year period starting January 1, 2007. (See Note 7 – Dream Home Canada)

d) 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.

e) 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.

f) Foreign Currency Translation

These consolidated financial statements are expressed in Canadian dollars. The Company's foreign operations, conducted through FII Consulting Co. (Shanghai) Ltd., are considered integrated operations and are translated from Chinese RMB using the temporal method of translation. Accordingly; monetary assets and liabilities are translated at the spot rates of exchange in effect at the balance sheet date; 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 rates of exchange in effect during the month in which the transaction occurred, except for amortization which is translated at its corresponding historical rate. Realized exchange gains and losses are included in the consolidated statements of operations.

g) Impairment and Disposal of Long-Lived Assets

Long-lived assets, including capital assets and prepaid leases subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets held and used by the company is

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

measured by comparing the carrying amount of the asset to the estimated value in use expected from the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount of which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

h) Use of Estimates

The preparation of financial statements 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. Significant areas requiring the use of management estimates include estimating the useful lives of long-lived assets, assessing the recoverability of accounts receivable, program advances, and accounts payable and accrued liabilities. Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from these estimates.

3) Changes in Accounting Policy

Financial Instruments

On April 1, 2008 Forestry Innovation Investment Ltd. had adopted CICA Handbook sections 3862 Financial Instruments - Disclosures and 3863 Financial Instruments - Presentation, replacing Section 3861, Financial Instruments - Disclosure and Presentation. These new sections revise and enhance disclosure requirements and carry forward unchanged its presentation requirements. The sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impact the company's disclosures provided but do not affect the company's results of operations or financial position.

Going Concern

On April 1, 2008 the company adopted the amendment to CICA Handbook section 1400.08, General Standards of Financial Statement Presentation. The amendment gives guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to conditions that may cast significant doubt on the entity's ability to continue as a going concern. It is management's assessment that there are no such conditions present at year end. This new standard does not impact the company's financial position, results of operations or cash flows.

4) Future Accounting Changes

a) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard introduces changes to recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The section applies to financial statements relating to fiscal years beginning on or after October 1, 2008. This standard will not affect the company's results of operations or financial position.

b) Consolidated Financial Statements

Section 1601 – Consolidated Financial Statements was issued in January 2009 and for Forestry Innovation Investment Ltd., will take effect April 1, 2011 with optional early adoption available. This section will replace Section 1600 – Consolidated Financial Statements. Section 1601 – Consolidated Financial Statements – defines the new standards for preparation of consolidated financial statements. This standard will not affect the company's results of operations or financial position.

5) Restricted Cash Held in Trust

In the previous year the company's Market Outreach Program 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 agreed to financially administer the moneys contributed to the program by the joint venture partners.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

6) 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 the Company 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, 2009, \$146,000 has been identified as repayable by the recipients and has been set up as program advances (2008 - \$709,000).

Program payables at March 31, 2009 of \$130,000 (2008 - \$204,000) relate to the net working capital at March 31, 2009 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 Consulting (Shanghai) Co., Ltd. is comprised of the following elements:

	2009	2008
Cash	(20)	(392)
Accounts receivable	(71)	(43)
Accounts payable	221	639
Total	130	204

7) Dream Home Canada

	2009	2008
Prepaid lease	2,397	3,767
Adjustment to prepaid lease	(56)	-
Amortization	(1,338)	(1,370)
Total	1,003	2,397

Management determined that invoices previously accrued as part of the lease prepayment of Dream Home Canada were not payable, resulting in adjustments to the prepaid lease, deferred revenue, and due to province.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

8) Capital Assets

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	533	376	157	163
Computer software	129	123	6	7
Furniture and equipment	302	202	100	113
Leasehold improvements	178	101	77	95
Tradeshow booths	1,845	1,504	341	232
Websites	566	435	131	79
	<u>3,553</u>	<u>2,741</u>	<u>812</u>	<u>689</u>

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.

9) Accounts Payable and Accrued Liabilities

	2009	2008
Trade payables	720	792
Accrued liabilities	520	877
	<u>1,240</u>	<u>1,669</u>

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

10) Due to the Province of British Columbia

On March 31 the amount due to the Province of British Columbia consisted of the following:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	4,486	4,945
Funds received for current year operations	<u>25,740</u>	<u>26,221</u>
	<u>30,226</u>	<u>31,166</u>
Payments refunded back to the Province	(4,486)	(4,946)
Interest earned during the period	89	297
Program expenditures	(26,077)	(23,408)
Dream Home Canada lease amortization	1,338	1,370
Change in capital assets net of amortization	(123)	200
Advances against program expenditures	193	(193)
Adjustment to due to the Province of British Columbia	61	0
	<u>1,221</u>	<u>4,486</u>

Change in capital assets net of amortization represents assets acquired during the year of \$568,000 (2008 - \$249,000) less amortization of \$445,000 (2008 - \$449,000)

Adjustment to due to the Province of British Columbia represents the write down of Dream Home Canada Prepaid lease of \$56,000 and disposal of capital assets with a net book value of \$5,000.

The amount payable to the Province of British Columbia is subject to repayment upon completion of the final audited financial report for fiscal 2009 and is not subject to interest charges.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

11) Deferred Revenue

Deferred revenue consists of contributions received for the construction of Dream Home Canada and the acquisition of capital assets. Revenue is recognized 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.

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	3,279	4,656
Decrease in Dream Home Canada net of prepaid lease expense	(1,338)	(1,370)
Increase/(Decrease) in capital assets net of amortization	123	(200)
Advances against program expenditures	(193)	193
Adjustment	(56)	
Balance, end of the year	<u>1,815</u>	<u>3,279</u>

Adjustment to deferred revenue reflects the write down of the prepaid lease of \$56,000.

12) 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 and Range holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

13) Commitments

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

	<u>Lease Payments</u>
March 2010	164
March 2011	157
March 2012	157
March 2013	118
March 2014	-
	<hr/> <u>596</u>

The Company also has an obligation to pay \$236,000 in fiscal 2009/2010 for contracts entered into and not yet completed at March 31, 2009.

14) Wenchuan Reconstruction Projects

In June of 2008, British Columbia (BC) Premier Gordon Campbell and the Honourable Gary Lunn, Canadian Minister of Natural Resources, announced a CDN \$8 million project to provide wood- frame buildings to help survivors of China's May 12 Wenchuan earthquake.

The project is a collaborative effort between the Government of Canada and the Government of British Columbia. BC is providing CDN \$5 million and the Government of Canada is contributing CDN \$3 million. It involves constructing permanent wood-frame structures, including schools, orphanages, senior homes and community centres. Made from 100% Canadian structural lumber and using modern wood frame construction technology, all the structures will be designed and assembled locally in China.

The reconstruction project is being managed by Forestry Innovation Investment Ltd. and delivered through its Shanghai based subsidiary FII Consulting (Shanghai) Co. Ltd. FII Consulting (Shanghai) Co. Ltd., in collaboration with Canada Wood Group China is providing on the ground Quality Assurance expertise and project management for the project. The project is expected to continue over three years with completion targeted for the 2010/2011 fiscal year.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

As at March 31, 2009 Forestry Innovation Investment Ltd. incurred the following costs related to this Project;

	<u>2009</u>	<u>2008</u>
Funding from the Province of British Columbia	(1,700)	-
Program Costs	1,895	-
Exchange Gain/Loss	32	-
	<u>227</u>	<u>-</u>

15) Related Party Transactions

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations and other public sector entities.

Forestry Innovation Investment Ltd. had the following transactions with its related parties:

	<u>2009</u>	<u>2008</u>
Revenues from the province		
Contributions from the Province of British Columbia	24,377	23,408
Contributions towards Wenchuan Reconstruction Projects	1,700	0
	<u>26,077</u>	<u>23,408</u>
Expenses		
Salary Costs	271	211
Program Costs		
UBC	1,055	711
UNBC	500	7
BCIT	36	84
Queens Printer	76	41
Northwest Community College	50	0
	<u>1,988</u>	<u>1,054</u>

Transactions with these entities, unless disclosed separately in these financial statements, are considered to be in the normal course of operations and are recorded at the exchange amount.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

16) Financial Instruments

As at March 31, 2009 FII has the following financial instruments:

Financial Instrument	Balance	Balance
	2009	2008
Cash	1,689	4,809
Accounts Receivable	396	507
Program Advances	146	709
Accounts Payable and Accrued Liabilities	1,240	1,669
Program Payables	130	204
Due to the Province of BC	1,221	4,486

The carrying value of Forestry Innovation Investments' financial instruments, approximate their fair value due to their short-term nature.

The management of Forestry Innovation Investment monitors and assesses the Company's exposure to risk through its financial instruments on an ongoing basis. Management uses a variety of processes to address these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Forestry Innovation Investment is potentially exposed to credit risk through cash, short-term investments and program advances. Cash and short-term investments are maintained with financial institutions of reputable credit and may be redeemed upon demand. Program advances are made to reputable recipients and management monitors the status of such advances on a continuing basis. It is the Company's opinion that its exposure to credit risk is subject to normal industry risks and is considered minimal.

Foreign exchange risk

Foreign exchange risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operations and financial results. The company is subject to foreign exchange risk through its program payables and a portion of the Company's program and tradeshow costs, which are denominated in Chinese Renminbi, Japanese Yen and other foreign currencies. Significant foreign exchange gain or losses are reflected as a separate component of the consolidated statement of operations. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk.

Forestry Innovation Investment Ltd.

Notes to the Consolidated Financial Statements

March 31, 2009

(tabular amounts in \$000s)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Management maintains 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.

17) Economic Dependence

The company's operations are funded in full by the Province of British Columbia, through the Ministry of Forests and Range and The Ministry of Small Business, Technology and Economic Development.

18) Comparative Figures

Certain figures for 2008 have been restated to conform to the current year's presentation.