



Report 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 consolidated balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2010, 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 the *Forestry Innovation Investment Ltd.* as at March 31, 2010, 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
June 18, 2010*

John Doyle, MBA, CA
Auditor General

Financial Statements

Forestry Innovation Investment Ltd.

Consolidated Balance Sheet

(in \$000s)

As at March 31	2010	2009
Assets		
Current assets		
Cash	-	1,689
Restricted cash held in trust (note 5)	-	352
Accounts receivable	4,301	396
Prepaid expenses	1,181	360
Program advances (note 6)	533	146
	6,015	2,943
Lease security deposits	128	-
Dream Home Canada (note 7)	-	1,003
Capital assets		
Property, plant and equipment (note 8)	478	675
Intangible assets (note 8)	122	137
	6,743	4,758
Liabilities		
Current liabilities		
Cheques written in excess of cash balance	342	-
Accounts payable and accrued liabilities (note 9)	1,588	1,240
Restricted funds held in trust (note 5)	-	352
Note payable (note 10)	1,561	-
Program payables (note 6)	32	130
Due to the Province of British Columbia (note 11)	709	1,221
	4,232	2,943
Deferred revenue (note 12)	2,055	1,815
	2,055	1,815
Shareholders's equity		
Share capital (note 13)	-	-
Retained earnings (note 17)	456	-
	456	-
	6,743	4,758

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.

Consolidated Statement of Operations and Retained Earnings

(in \$000s)

For the year ended March 31	2010	2009
Revenue		
Contribution from the Province of British Columbia	23,075	24,377
Contribution for Wenchuan Reconstruction Projects (note 15)	1,847	1,700
Contribution for China Demonstration Projects (note 16)	3,341	-
	28,263	26,077
Program costs		
Market Development Programs		
Market Development	14,129	14,487
China - Market Development		
Market Development	3,815	4,227
Wenchuan Reconstruction Projects (note 15)	1,697	1,927
Demonstration Projects (note 16)	3,035	-
Product Development	1,250	1,700
	23,926	22,341
Market Outreach Program	2,064	2,154
Corporate Support	1,381	1,137
Amortization	436	445
	27,807	26,077
Excess of revenue over expenditures	456	-
Retained earnings beginning of year	-	-
Retained earnings end of year (note 17)	456	-

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

Forestry Innovation Investment Ltd.
Consolidated Statement of Cash Flows
(in \$000s)

For the year ended March 31	2010	2009
Cash flows used in operating activities:		
Excess of revenue over expenditures	-	-
Items not involving cash:		
Amortization of capital assets	436	445
Amortization of Dream Home Canada lease	1,003	1,338
	1,439	1,783
Changes in non-cash working capital	(5,041)	(2,927)
	(3,602)	(1,144)
Cash flows from investing activities:		
Adjustment to Dream Home Canada prepaid lease (Note 7)	-	56
Purchase of capital assets	(230)	(568)
	(230)	(512)
Cash flows from financing activities:		
Change in deferred revenue	240	(1,464)
Note payable	1,561	-
	1,801	(1,464)
Decrease in cash during the year	(2,031)	(3,120)
Cash beginning of year	1,689	4,809
Cash end of year	(342)	1,689

Interest paid during the year 2010 was \$0 (2009 - \$0).

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, 2010

(in 000's)

	Market Development	China Market Development	Product Development	Market Outreach	Corporate Support	2010 Total	2009 Total
Amortization	-	63	-	-	373	436	445
Auditing	174	16	-	-	68	258	259
Communications	-	-	-	-	77	77	67
Conferences and Trade Shows	534	18	-	549	-	1,101	1,584
Grants	1,938	-	-	32	-	1,970	1,265
Marketing	-	123	-	116	-	239	143
Office	103	521	-	83	202	909	806
Lease Amortization	-	1,003	-	-	-	1,003	1,338
Performance Management	-	-	-	-	-	-	94
Professional Services	1	133	-	54	256	444	392
Publishing	71	-	-	45	-	116	233
Strategy & Research Studies	136	123	-	342	-	601	1,237
Trade Missions	36	-	-	-	-	36	19
Travel & Business Costs	101	173	-	40	84	398	513
Wages and Benefits	813	1,146	-	336	693	2,988	2,854
Websites	48	-	-	28	-	76	82
Program Costs	10,171	5,282	1,250	442	-	17,145	14,740
Exchange Gain/Loss	3	9	-	(3)	1	10	6
Total	14,129	8,610	1,250	2,064	1,754	27,807	26,077

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

Notes to the Consolidated Financial Statements

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 B.C. wood products in existing and emerging markets;
- ensure BC forest products have access to markets free from regulatory and other barriers;
- 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, including products using pine harvested from mountain pine beetle-attacked forests; and
- provide interested parties around the world with information on the properties and qualities of B.C.'s forest products and the B.C. companies that supply them.

Market Outreach Program - is an in-house program that provides customers and foreign regulators with facts about the environmental merits of B.C. forest products, including the sustainable forest management regime that underlies their production.

Environmental campaigns that promote misleading or incorrect information are quickly challenged by FII and its partners. They also monitor development of draft legislation and procurement policies in other jurisdictions, and intervene if necessary to obviate or minimize measures that would impair the flow of B.C. forest products into a particular market. They do this in part by 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:

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. Ltd.'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 payable and accrued liabilities, Restricted funds held in trust, Program payables, Notes Payable 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 at December 31, 2006. All costs were capitalized at that time and have been amortized as lease payments over a three-year period starting January 1, 2007 and ending December 31, 2009. (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

e) **Revenue Recognition**

Contributions from the Province of British Columbia and the Government of Canada 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 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

Goodwill and Intangible Assets

In February 2008 the CICA issued section 3064 Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. Forestry Innovation Investment Ltd. has reflected this

change by identifying intangible assets as a separate component of capital assets. (See Note 8 – Capital Assets)

4. Future Accounting Changes

a) 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 is not expected to affect the Company's results of operations or financial position.

b) Future Accounting Framework – Public Sector Accounting (PSA) Standards:

The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) is adopting International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises (PAEs) for fiscal years beginning on or after January 1, 2011.

A PAE is an entity that:

1. has issued, or is in a process of issuing, debt or equity instruments that are, or will be, outstanding and traded in a public market (including a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
2. holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

The Public Sector Accounting Board (PSAB) sets out the applicable source of GAAP applied by Canadian government organizations. Federal, provincial, territorial, and local governments follow the PSA Handbook Standards, not IFRS. Governments control and operate various forms of organizations. In response to the AcSB's adoption of IFRS, the PSAB released the "Introduction to PSA Standards", as amended in October 2009, and directed government organizations as follows:

1. Government business enterprises are to follow IFRS;
2. Government not-for-profit organizations are to follow the standards for not-for-profit organizations in the CICA Handbook – Accounting; and
3. Other government organizations can choose PSA Handbook or IFRS, whichever is more appropriate.

Forestry Innovation Investment is an "other government organization." Currently, the Board of Directors is reviewing the proposed standards to determine the most appropriate form of GAAP to meet the needs of the financial statement users. At the time of reporting, a decision has not been made, although any recommended changes made will be effective April 1, 2011 and include the restatement of March 31, 2010 financial results using the newly adopted standards.

5. Restricted Cash Held in Trust

In 2008 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.

In early 2010, the administration of these funds was transferred to PEFC Asia. As of the end of February 2010, there were no moneys owing from this account and the balance in the account was transferred to PEFC Asia and the account closed.

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 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, 2010, \$533,000 has been identified as repayable by the recipients and has been set up as program advances (2009 - \$146,000).

Program payables at March 31, 2010 of \$32,000 (2009 - \$130,000) 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 payables to FII Consulting (Shanghai) Co., Ltd. is comprised of the following elements:

	2010	2009
Cash	(65)	(20)
Accounts receivable	(58)	(71)
Accounts payable	155	221
Total	32	130

7. Dream Home Canada

	2010	2009
Prepaid lease	1,003	2,397
Adjustment to prepaid lease	-	(56)
Amortization	(1,003)	(1,338)
	-	1,003

In 2009, 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 of B.C..

8. Capital Assets

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Property, Plant and Equipment				
Computer equipment	540	424	116	157
Furniture and equipment	327	242	85	100
Leasehold improvements	215	122	93	77
Tradeshow booths	734	550	184	341
	1,816	1,338	478	675
Intangible Assets*				
Websites	293	173	120	131
Computer software	102	100	2	6
	395	273	122	137
	2,211	1,611	600	812

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.

*Intangible assets subject to amortization that were acquired during the year totaled \$0 (2009 - \$0) and intangible assets developed during the year totaled \$76,000 (2009 - \$95,000). The aggregate amortization recorded for intangible assets in 2010 was \$88,000 (2009 - \$43,000).

9. Accounts Payable and Accrued Liabilities

	2010	2009
Trade payables	369	720
Future employee benefit	171	-
Accrued liabilities	1,048	520
	1,588	1,240

10. Note Payable

	2010	2009
Note Payable	1,561	-
Interest Payable	-	-
	1,561	-

Forestry Innovation Investment Ltd. signed a \$1,561,000 short-term note with HSBC on March 31, 2010 against 90 percent of its accounts receivable invoice outstanding from a Government of Canada contract

with a fair market value of \$1,734,000 for the Wenchuan Reconstruction Projects. The note requires interest payable monthly at prime plus 0.5 percent. Interest is effective April 1, 2010 and repayment of the loan in full is required upon receipt of payment of accounts receivable outstanding from the Government of Canada. (See note 15 – Wenchuan Reconstruction Projects)

11. Due to the Province of British Columbia

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

	2010	2009
Balance, beginning of the year	1,221	4,486
Funds received for current year operations	23,075	25,740
	<u>24,296</u>	<u>30,226</u>
Payments refunded back to the Province	(1,221)	(4,486)
Interest earned during the period	2	89
Program expenditures	(23,450)	(26,077)
Dream Home Canada lease amortization	1,003	1,338
Change in capital assets net of amortization	206	(123)
Advances against program expenditures	(127)	193
Adjustment to due to the Province of British Columbia	-	61
Due to the Province of B.C. end of the year	<u>709</u>	<u>1,221</u>

Change in capital assets net of amortization represents assets acquired during the year of \$230,000 (2009 - \$568,000) less amortization of \$436,000 (2009 - \$445,000).

The amount payable to the Province of British Columbia is subject to repayment upon completion of the final audited financial report for fiscal 2010 and is not subject to interest charges.

12. Deferred Revenue

Deferred revenue consists of contributions received for the construction of Dream Home Canada, the acquisition of capital assets, advances against program expenditures and advances on federal contracts with goods and services still outstanding. Revenue is recognized as these assets are amortized and or goods and services received. The deferred revenue account, therefore, will increase by the purchase of assets or advances received and decrease by the amortization of those assets or goods and services received.

	2010	2009
Balance, beginning of the year	<u>1,815</u>	3,279
Decrease in Dream Home Canada net of prepaid lease expense	(1,003)	(1,338)
Increase/(Decrease) in capital assets net of amortization	(206)	123
Advances against program expenditures provincial	127	(193)
Advances against program expenditures federal	1,327	-
Adjustment	(5)	(56)
Balance, end of the year	<u>2,055</u>	<u>1,815</u>

Adjustment to deferred revenue reflects the write down of accumulated amortization per schedule.

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 and Range 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 Street; DHC Villas, Shanghai; kiosk space at the Tsawwassen Ferry Terminal; and one vehicle lease as follows:

	<u>Lease Payments</u>
March 2011	653
March 2012	485
March 2013	-
March 2014	-
March 2015	-
	<u>1,138</u>

The Company also has an obligation to pay \$2,142,000 in fiscal 2010/2011 for contracts entered into, including those for the Wenchuan Reconstruction Projects, and not yet completed at March 31, 2010.

15. Wenchuan Reconstruction Projects

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

The initiative is a collaborative effort between the Government of Canada and the Government of British Columbia. B.C. is providing CDN \$5 million and the Government of Canada is contributing CDN \$3 million. This involves constructing permanent wood-frame structures, including a school, a seniors' home, and a rehabilitation centre for physically disabled. All are being built of Canadian structural lumber and using modern wood frame construction technology.

The reconstruction projects are being managed by Forestry Innovation Investment Ltd. and delivered through its Shanghai based subsidiary FII Consulting (Shanghai) Co. Ltd. The latter is responsible for negotiating the terms of each project and managing it to completion. Canada Wood Group China, is providing on-the-ground quality assurance. The initiative is expected to continue over three years with completion targeted for late 2010/2011.

As at March 31, 2010 Forestry Innovation Investment Ltd. has incurred the following funding and costs related to this initiative:

	2010	2009
Funding from the Province of British Columbia	-	(1,700)
Funding from the Government of Canada	(1,847)	
Project Costs	1,704	1,895
Exchange Gain/Loss	(7)	32
	<u>(150)</u>	<u>227</u>

16. China Wood Frame Demonstration Projects

In 2009/2010, Forestry Innovation Investment Ltd. and the Government of Canada, through the Minister of Natural Resources, entered into an agreement where Natural Resources Canada would contribute CDN \$3.6 million for wood frame demonstration projects in China. A further CDN \$2.1 million contribution is anticipated in 2010/2011 towards these initiatives.

The projects are a collaborative effort to illustrate a wide range of building applications using wood. These include wood frame elements such as wood truss roofs, interior partition walls, and exterior infill walls in multi-storey, multi-family housing. Projects will demonstrate the merits of wood-frame building and related technology, and the quality of Canadian/B.C. wood products, and will advance the acceptance of structural wood building systems in China.

The demonstration projects are being managed by Forestry Innovation Investment Ltd. and delivered through its Shanghai based subsidiary FII Consulting (Shanghai) Co. Ltd. As with most Wenchuan Earthquake projects, the latter is responsible for negotiating the terms of each project and managing it to completion. Canada Wood Group China is providing on-the-ground quality assurance expertise.

As at March 31, 2010 Forestry Innovation Investment Ltd. has incurred the following costs related to these projects:

	2010	2009
Funding from the Government of Canada	(3,341)	-
Program Costs	3,037	-
Exchange Gain/Loss	(2)	-
	(306)	-

17. Retained Earnings

The Company had retained earnings of \$456,000 as a result of surplus funds received from the Government of Canada. FII's funding agreement with the Province of BC allows for the carryover of any funds received from sources outside of Province of BC into future periods.

18. Future employee benefit

The Company has an obligation to pay a retirement allowance of \$171,482 to a senior executive at the expiry of the employment agreement. The Company recognized the future benefit by recording it as an expense and a current liability in the financial reporting for this fiscal 2009/10.

19. 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. In addition, transactions with senior management, directors, immediate family members of senior management and directors and companies with which any of the above have a financial interest are also considered related parties. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

	2010	2009
Revenues from the Province		
Contributions from the Province of British Columbia	23,075	24,377
Contributions towards Wenchuan Reconstruction Projects	-	1,700
	23,075	26,077
Expenses		
Wages and benefits	308	271
Office	75	76
Program Costs	597	1,091
Grants	25	550
	1,005	1,988

20. Capital Management

The Company considers its capital to be its retained earnings, which comprise general funds from Government of Canada agreements. The capital consists of amounts received from the Government of Canada where funds were in excess of expenditures at year end for ongoing projects undertaken by the Company (see Note 17).

The Company's objectives when managing its capital are to ensure the Company effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Annual budgets are developed and monitored to ensure the Company manages its revenues, expenses, assets, liabilities, and general financial dealings prudently and in compliance with the Government Budget processes and with Treasury Instructions.

21. Financial Instruments

As at March 31, 2010 FII has the following financial instruments:

Financial Instrument	Balance	Balance
	2010	2009
Cash	-	1,689
Accounts Receivable	4,301	396
Program Advances	533	146
Cheques Written in excess of Cash Balance	342	-
Accounts Payable and Accrued Liabilities	1,588	1,240
Note Payable	1,561	-
Program Payables	32	130
Due to the Province of B.C.	709	1,221

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, accounts receivable and program advances. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Accounts receivable consist mainly of federal cost share agreements which are monitored on a regular basis. Program advances are made three times

through the year to reputable recipients, and FII staff monitor 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.

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.

Market risks

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 schedule of expenditures by business segment. The Company does not use derivatives instruments to reduce its exposure to foreign currency risk.

Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Forestry Innovation Investment Ltd. is exposed to changes in interest rates primarily through its variable rate short-term debt with an increase of 1% resulting in an increase of \$15,600 in annual interest expense. Debt management strategies include monitoring of interest rates, leveraging unrestricted surplus funding against the interest rate debt.

22. 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 Government of Canada through NRCan.

23. Comparative Figures

Certain figures for 2009 have been restated to conform to the current year's presentation.

Contact information

Further information on Forestry Innovation Investment is available at www.bcfii.ca. A *Report to Stakeholders* to be published in June 2010 will highlight accomplishments in major markets around the world in 2009/10. Previous Service Plans and Service Plan Annual Reports are posted to the "About FII" section of the website.

Comprehensive information about B.C.'s sustainable forest management practices and products is available at www.naturallywood.com, with links to many forest-product companies and trade associations.

Information on FII operations in China is available at www.canadawood.cn. Details on the Canada-B.C. Wenchuan Earthquake Reconstruction Project may be found at www.canada-bc-512quakereconstruction.org/.

