

# BC Immigrant Investment Fund Ltd.

## June 2013 Service Plan Report



# Message from the Chairman to the Minister Responsible

I have the honour of presenting you with the BC Immigrant Investment Fund Ltd. ("BCIIF") Service Plan Report for 2012/13.

In July of 2012 I was appointed Chair of the Board of Directors of the BCIIF, along with five other new directors from the private sector, with backgrounds in finance, investment management, accounting and law. The change in composition of the Board follows Best Practices of Crown Corporation governance, as prescribed by British Columbia's Crown Agencies Resource Office and the Board Resource and Development Office.

In 2012/13, BCIIF realized a net operating income of \$5 million and had \$25 million in cash and short-term investments at year end. Under its wholly-owned subsidiary, B.C. Renaissance Capital Fund Ltd. ("BCRCF"), BCIIF continued its prudent investment approach in pursuit of venture capital. BCIIF also continued to invest in public sector infrastructure loans. Looking forward, BCIIF anticipates that good investment opportunities will emerge with the increase in public sector infrastructure projects and with the improving prospects of B.C.'s venture capital firms in the areas of digital media, information technology, life sciences and clean technology. BCIIF will also explore opportunities to invest its capital in new ways that support the economic development priorities described in the Government's economic and jobs strategy as directed by the Government's Letter of Expectations. To qualify for investment, the investment opportunity must satisfy BCIIF's requirements of prudent asset allocation and risk management.

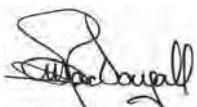
The BCIIF Service Plan Report is submitted to meet the requirements of the Budget Transparency and Accountability Act and the B.C. Reporting Principles and follows the 2012/13 Crown Corporation Service Plan Report and Guidelines.

This report has been prepared under the direction of BCIIF's Board of Directors (the "Board") and provides complete and accurate performance information on its major activities, achievements and outcomes for the 2012/13 fiscal year. This information has been prepared in a manner that is consistent with the BCIIF 2012/13 Service Plan's performance measures and targets.

In addition, this report contains a complete set of BCIIF financial statements that were prepared and signed by officers of the company and audited by the Office of the Auditor General. The Board is accountable for the contents of the report including decisions on scope, level of detail and how the information is presented. The Board is responsible for ensuring that internal controls are in place to ensure performance information and financial information is accurate and timely.

All significant decisions and identified risks as at March 31, 2013 have been considered in preparing this report. The report contains estimates and interpretative information that represents the best judgment of management. Any changes in BCIIF's mandate, direction, goals, strategies, measures or targets since the 2012/13 Service Plan was released and any significant limitations in the reliability of the data are identified within the report.

Sincerely,



Gordon MacDougall  
Chairman

June 2013  
Victoria, British Columbia

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# Organizational Overview

## **BC IMMIGRANT INVESTMENT FUND LTD.**

BC Immigrant Investment Fund Ltd. (the “Corporation” or “BCIIF”) was incorporated on September 19, 2000 under the Company Act of British Columbia and is wholly-owned by the Province of British Columbia.

The Corporation is an approved fund under the federal Immigrant Investor Program (the “Program”), administered by Citizenship and Immigration Canada (“CIC”). The Program provides an opportunity for experienced business persons to immigrate to Canada after depositing a prescribed sum of money with the federal Minister of Citizenship and Immigration. The federal Minister then disburses these monies to approved funds according to an allocation formula set out in the Immigration and Refugee Protection Regulations. The regulations require approved funds participating in the Program to invest in initiatives that contribute to economic development and job creation in Canada. As a matter of practice, BCIIF routinely consults with the Program administrators to ensure compliance of its investments with the Program’s parameters.

The BCIIF receives and manages B.C.’s allocation of funds under the Program. The Program confers discretion on the provinces to manage their allocation of the Program’s immigrant investor funds (“Funds”) for investment in economic development and job creation. Provincial allocations are repayable to the federal government without interest on the fifth anniversary of their receipt. Although there is no interest charged on the Funds, there is a nominal fee of between 1.0 and 1.5 percent per year. In order to participate in the Program, the Province has provided the federal government with a repayment guarantee of the Funds up to \$500 million.

## **B.C. RENAISSANCE CAPITAL FUND LTD.**

B.C. Renaissance Capital Fund Ltd. (“BCRCF”) is a Crown corporation that is wholly-owned by the BCIIF. It is administered by officers and staff of the BCRCF with assistance from the Ministry of Finance. The purpose of BCRCF is to attract successful venture capital managers and their capital to B.C. to develop promising, innovative technology companies in the province.

In August 2007, the provincial Treasury Board approved an allocation of \$90 million from BCIIF to BCRCF for the purposes of pursuing investment in four key technology sectors: digital media, information technology, life sciences and clean technology. From BCRCF’s inception in late 2007 through March 2013, the BCRCF fund managers and their syndicate partners have invested \$196 million in 23 B.C. companies. The current BCRCF portfolio consists of 20 active B.C. companies that collectively employ over 750 people.

The objectives of BCRCF are to:

- Generate superior, risk-adjusted returns for the capital committed;
- Increase the probability that innovative new goods and services in B.C. gain full-scale commercialization;
- Increase the depth of the venture capital market in B.C.; and
- Enhance the visibility of B.C. as an attractive market for venture capital opportunities in North America and globally.

BCRCF invests with venture capital fund managers who have a proven track record of investing successfully in one or more of the four key technology sectors. Each venture capital firm that BCRCF invests with commits to perform certain investment-related activities in B.C. in order to increase the probability of successful investment in the province. Some of these commitments include, for example:

- Opening and maintaining offices in B.C. staffed by senior investment professionals;
- Forming strategic alliances with local venture capital firms;
- Hosting and attending investor forums in B.C. to establish networks with local stakeholders; and
- Exploring investment opportunities in the Province.

As of March 2013, BCRCF has made investment commitments of \$90 million with eight fund managers through formal limited partnership agreements and side letter agreements. The eight fund managers are:

- ARCH Venture Partners
- Azure Capital
- iNovia Capital
- Kearny Venture Partners
- Tandem Expansion
- Vanedge Capital
- VantagePoint Capital Partners
- Yaletown Venture Partners

Collectively, venture capital fund managers affiliated with BCRCF manage more than \$2.5 billion of venture capital that is available for investment.

Each of the eight fund managers invests over a ten-year cycle. Generally, they deploy capital in the first five years and expect to realize returns in years six through ten. Because the funds were formed between 2007 and 2011, BCRCF should realize returns between 2013 and 2022, with the bulk of the returns expected to occur in the latter half of this period. Early and modest returns have started to flow with \$1.5 million distributed to BCRCF during 2012/13 from the sales of portfolio companies. BCRCF staff will continue to monitor and track the underlying fund investments and the financial performance of the fund managers.

# Corporate Governance

BCIIF reports to the Minister of International Trade and Minister Responsible for the Asia Pacific Strategy and Multiculturalism and is governed by an independent six-member Board of Directors appointed by the Shareholder.

The Board of Directors provides leadership and direction to the Corporation in a manner consistent with the policies and directives of the Government of British Columbia as outlined in the annual Shareholder's Letter of Expectations. BCIIF's Board of Directors acts in accordance with the best practices published by the Crown Agencies Secretariat and Board Resourcing and Development Office and can be found at [www.gov.bc.ca/cas](http://www.gov.bc.ca/cas).

The Board has the following responsibilities:

- Ensure appropriate controls and accountabilities are in place;
- Recommend policies for investment decisions to Treasury Board;
- Approve particular investments;
- Ensure reporting requirements are fulfilled;
- Approve the annual budget; and
- Appoint the auditors.

The Directors of BCIIF are:

1. Gordon MacDougall (Chair)
2. Douglas Beaton
3. Valli Chettiar
4. Bob Gautama
5. Dean Mason
6. Robert Wilson

Jim Hopkins, Assistant Deputy Minister, Ministry of Finance, serves as a special advisor to the Board.

## **BOARD COMMITTEES**

### **FINANCE AND AUDIT**

**Purpose:** The purpose of the Finance and Audit Committee is to assist the Board of Directors in fulfilling its obligations and oversight responsibilities relating to financial planning, the audit process, financial reporting, the system of corporate controls, and risk management, and when required, make recommendations to the full Board of Directors for approval.

**Members:** Dean Mason (Chair), Douglas Beaton, Rob Wilson

### **GOVERNANCE**

**Purpose:** The purpose of the Governance Committee is to assist the Board of Directors in fulfilling its obligations and oversight responsibilities relating to corporate governance and human resources, including staff structure, succession planning, annual review processes, human resource policies and codes of conduct.

**Members:** Valli Chettiar (Chair), Gordon MacDougall, Bob Gautama

### **OFFICERS**

The Officers of BCIIIF and BCRCF are:

1. Terry Gelinias, Comptroller
2. Jeff Lindsay, Senior Portfolio Manager
3. Shauna Turner, Acting CEO

There are two full-time equivalent employees devoted to BCIIIF management and reporting in addition to Board member commitments.

More information about corporate governance can be found on the BCIIIF website at: <http://www.bciif.ca/bciif/about/governance.html>.

### **BCIIF HAS THE FOLLOWING CORPORATE VALUES:**

*Integrity* – the Corporation, its Board, and its subsidiary will act honestly, in good faith and in the best interests of BCIIIF.

*Accountability* – BCIIIF will operate with fiscal responsibility to maximize the financial returns from the funds invested.

*Economic Development* – BCIIIF will, to the extent that it is consistent with fiscal responsibility, invest in initiatives that promote economic development and create employment in B.C.

# Strategic Context

## **FEDERAL IMMIGRANT INVESTOR PROGRAM**

Under the Program's provincial allocation formula, BCIIIF manages \$363 million as of March 2013. The Program remains popular and continues to process a large backlog of immigrant investor applications at higher deposit levels. Over the next several years, the total funds available (and thus BCIIIF's allocation) are expected to remain steady.

BCIIIF is required to return funds to the federal government five years after receipt. Accordingly, BCIIIF must continue to manage its investments to:

1. provide for needed liquidity in the future,
2. maximize investment returns and
3. satisfy the Program's economic development criteria.

In 2013, Citizenship and Immigration Canada is conducting a regularly-scheduled review of its Business Immigration programs, including the Immigrant Investor Program. The purpose of the review is to evaluate the administrative efficiency and economic benefits of these programs, with a report to be published in mid-2014, which will include recommendations for improving the programs. BCIIIF is participating in the review and will monitor developments closely to manage any potential risks that may arise from future Program changes.

## **INVESTMENTS**

The funds are targeted broadly for economic development and job creation in the province. More specifically, they have been directed to two distinct areas -- public sector infrastructure investments and venture capital fund investments.

Through BCIIIF, B.C. continues to invest in public sector infrastructure to meet the needs of a growing economy, including multi-billion dollar investments to build and upgrade schools, universities, colleges, hospitals, roads, and bridges. To date, BCIIIF has issued 10 loans for a total value of \$402 million, creating over 2,500 full-time jobs.

The BCRCF fund managers and their syndicate partners have invested \$196 million in 23 B.C. companies. The current portfolio consists of 20 B.C. companies that collectively employ over 750 people. In addition to capital, the BCRCF fund managers provide global connections to build industry-leading companies and to take them into global markets. Many of the B.C. portfolio companies garnered prestigious international recognitions for innovation and exported B.C. home-grown technologies across North America and Europe.

The infrastructure and venture capital portfolio companies are located throughout B.C. Among the five regions listed on the map, Metro Vancouver accounted for the majority of the investments. The venture capital fund managers attributed the attractiveness of Metro Vancouver to the high density of entrepreneurial talent and start-up activity.





<b>1. Northern BC</b> Duchess Park Secondary School Gateway Prince George Care Complex	<b>2. Thompson Okanagan</b> Nicola Valley Institute of Technology Penticton Secondary School UBC Okanagan Health Sciences Centre
<b>3. Vancouver Island</b> Alberni District Secondary School Au Coeur de L'île Community School Nanaimo Regional Hospital Emergency Department UVic Technology Enterprise Facility	<b>4. Kootenay Rockies</b> J Lloyd Crowe Secondary School Revelstoke Secondary School and Elementary School
<b>5. Metro Vancouver</b> BCIT Aerospace Technology Campus Burnaby Central Secondary School Cariboo Hill Secondary School Ecole Jules Quesnel Elementary School Laura Secord Elementary School SFU Foundation Timber Creek Tertiary Facility University of the Fraser Valley University Hill Secondary School Vancouver General Hospital Willow Pavilion Allocadia Software Boreal Genomics Cooledge Lighting Delta-Q Technologies E-One Moli Energy ePACT Network Foodee GrowLab Indicee Light-Based Technologies Nexterra NGRAIN Ostara Partnerpedia Recon Instruments Solegear Wantering Wurldtech	

**I. PUBLIC SECTOR INFRASTRUCTURE INVESTMENTS**

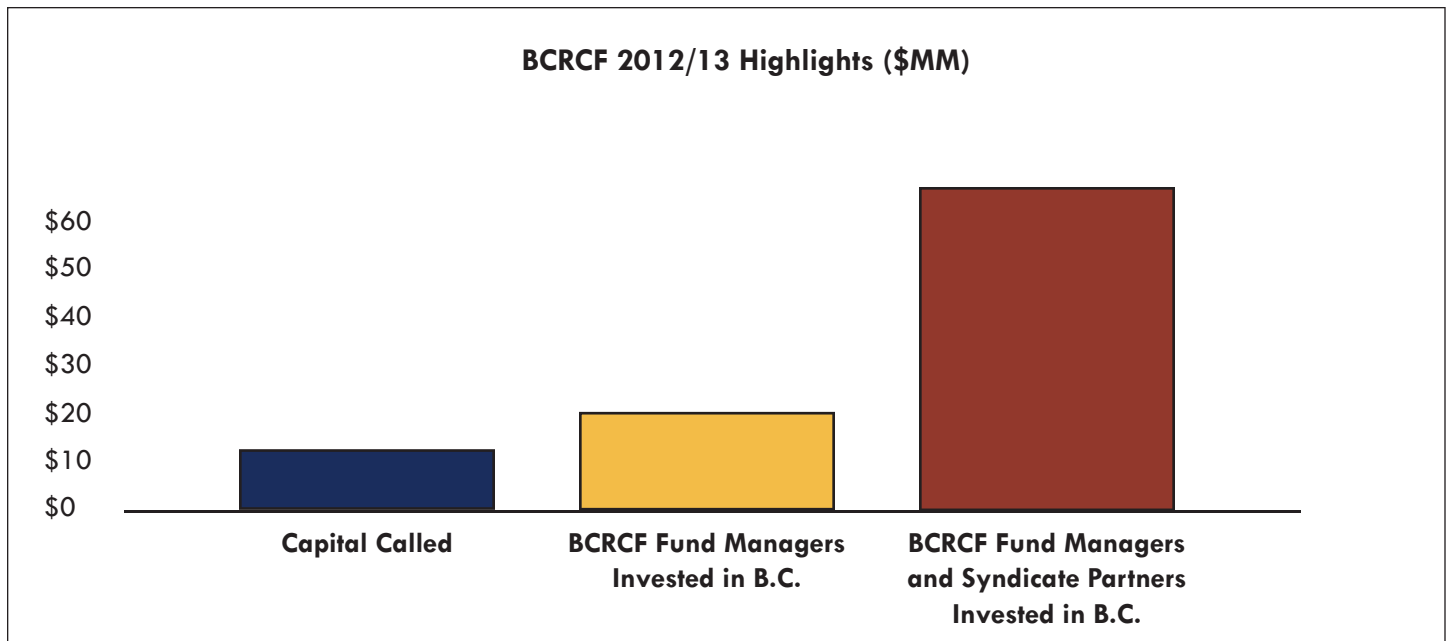
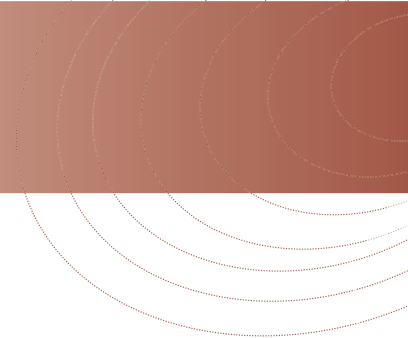
In 2012-13, BCIF made a loan of \$45 million to the Province of British Columbia to help fund three projects, creating a total of 288 jobs:

- \$23 million for the redevelopment of the Willow Pavilion at the Vancouver General Hospital  
The renovation of a six-storey building to accommodate a 79-bed acute mental health facility.
- \$10 million for the Nanaimo Regional Hospital Emergency Department Expansion  
The replacement and expansion of the emergency department from 963 square metres to 2,300 square metres.
- \$12 million for the redevelopment of the Timber Creek Tertiary Facility in Surrey  
The construction of a new 59-bed acute mental health facility for adults with serious, complex and persistent mental illness.

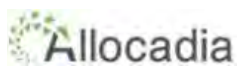
**II. VENTURE CAPITAL INVESTMENTS**

In 2012/13, BCRCF committed \$4 million to one fund manager, resulting in aggregate capital commitments of \$90 million to eight fund managers. This completes the \$90 million in capital commitments that BCIF has allocated to BCRCF for venture capital investments.

During the fiscal year, approximately \$12.5 million of capital calls were drawn from BCRCF by the fund managers. The BCRCF fund managers in turn invested \$18.5 million in B.C. portfolio companies. Syndicate partners invested a further \$37.9 million in these companies, for a total of \$56.4 million. These results demonstrate a leverage factor of 4.5 times the BCRCF contribution of \$12.5 million in 2012/13.



The BCRCF fund managers and their syndicate partners invested in the following B.C. companies during the fiscal year:



**Allocadia Software Inc.**, based in Vancouver, provides a SaaS solution to help marketing professionals manage marketing investments and gain insight into marketing ROI. iNovia invested \$0.2 million, and attracted an additional \$0.8 million from syndicate partners.



**Cooledge Lighting Inc.**, based in Vancouver, aims to replace conventional fluorescent fixtures used for broad area lighting in commercial buildings with solid state lighting technology to allow flexible and broad space designs with tunable colour. ARCH and Yaletown invested \$3.5 million in Cooledge, and attracted an additional \$5.6 million from syndicate partners.



**Endurance Wind Power**, based in Surrey, manufactures advanced small wind turbines from 5 to 50kW in size, designed specifically for distributed wind power applications. Yaletown invested \$3.3 million in Endurance Wind Power, and attracted an additional \$10.1 million from syndicate partners.



**ePACT Network Ltd.**, based in Vancouver, is the “LinkedIn for emergencies”, a web-based system that leverages the power of online networking to navigate unexpected events. Yaletown invested \$0.3 million in ePACT and attracted an additional \$0.6 million from syndicate partners.



**Foodee Media Inc.**, based in Vancouver, is an online marketplace for take-out and delivery food. Yaletown invested \$0.1 million in Foodee, and attracted an additional \$0.4 million from syndicate partners.



Based in Vancouver, **Indicee Inc.**'s technology enables ordinary business users to consolidate, analyze and share their business data through a web-based software-as-a-service platform that is both simple and secure. Yaletown invested \$0.5 million in Indicee, attracted an additional \$1.7 million from syndicate partners.



**Metafor**, based in Vancouver, is building next generation management and monitoring tools optimized for cloud environments. Vanedge invested \$0.5 million in Metafor, and attracted an additional \$0.5 million from syndicate partners.



**Ostara Nutrient Recovery Technologies Inc.**, based in Vancouver, designs, builds and markets a proprietary nutrient recovery technology that transforms phosphorus and nitrogen recovered from municipal and industrial water treatment facilities into a high-value, eco-friendly fertilizer. VantagePoint invested \$4.2 million in Ostara, and attracted an additional \$10.3 million from syndicate partners.



**Partnerpedia Solutions Inc.**, based in Vancouver, develops mobile application management software, offering solutions directly to IT customers as well as to OEMs and vendors under private label. Yaletown invested \$1.4 million in Parterpedia, attracted an additional \$1.2 million from syndicate partners.



Based in Vancouver, **Recon Instruments'** technology platform integrates a heads-up display with a state-of-the-art micro-computer. Vanedge invested \$0.3 million in Recon, and attracted an additional \$2.8 million from syndicate partners.



**Solegear**, based in Vancouver, engineers, produces and distributes high-performance bioplastic made from rapidly renewable resources. Yaletown invested \$1.1 million in Solegear, and attracted an additional \$1.5 million from syndicate partners.



**Wanering**, based in Vancouver, provides a personal "shopper" for online apparel and accessories. Yaletown invested \$0.1 million in Wanering, and attracted an additional \$0.3 million from syndicate partners.



**Wurldtech**, based in Vancouver, designs and develops cyber-risk and security compliance solutions for industrial automation industries. Vanedge \$3.0 million in Wurldtech, and attracted an additional \$2.1 million from syndicate partners.

# Report on Goals, Strategies, Performance Measures and Targets

The 2012/13 service plan includes performance measures that were selected based on BCIF's reporting capabilities at the time of plan submission. As the reporting capabilities evolve, BCIF will include additional measures that will enhance performance analysis. For instance, the 2013/14 Service Plan includes a benchmark against which BCIF's financial performance can be compared.

## **Goal 1: To generate commercial returns on investments**

BCIF's investment portfolio is comprised of public infrastructure loans, venture capital fund investments and money market instruments.

### **STRATEGIES**

- Invest in public infrastructure.
- Invest with venture capital fund managers with a track record of success.

### **Public Infrastructure Loans and Money Market Investments Portfolio**

Performance Measures (\$ millions)	Actuals			Target			Variance
	10/11	11/12	12/13	12/13	13/14	14/15	12/13
1. New investments made within public infrastructure	75	95	45	0	120	60	45
2. Cumulative investments made within public infrastructure	263	357	402	358	478	538	45

### **IMPORTANCE OF THE PERFORMANCE MEASURES**

BCIF's fixed income portfolio is comprised of (1) long-term loans to entities in the provincial public sector, which yield returns equal to the Province's cost of funds; and (2) short-term, money market investments to provide required liquidity for retiring revolving 5-year immigrant investor loans from the federal government and meet cash calls on the \$90 million of commitments to the venture capital fund managers.

### **PERFORMANCE ANALYSIS**

In 2012-13, BCIF made a loan of \$45 million to the Province of British Columbia to help finance the renovation of two hospitals in Vancouver and Nanaimo as well as a mental health facility in Surrey. In alignment with the fund's economic development objectives, this loan created approximately 288 FTEs during the projects' construction phase.

The decision to make this loan was due to i) better than expected federal allocations that increased cash balances, and ii) superior financial returns on the public infrastructure loan portfolio as yields on longer-term loans are preferable to idle cash balances in BCIMC.

**DATA SOURCES FOR PERFORMANCE MEASURES**

The data is drawn from loan agreements between BCIF and the Province of British Columbia for the period April 1, 2012 to March 31, 2013.

**Venture Capital Investments**

Performance Measures (\$ millions)	Actuals			Target			Variance
	10/11	11/12	12/13	12/13	13/14	14/15	12/13
1. Cumulative commitment made to BCRCF Fund Managers	82	86	90	90	90	90	0

**IMPORTANCE OF THE PERFORMANCE MEASURES**

In 2007, Treasury Board approved an allocation of \$90 million from BCIF to BCRCF to pursue investments in four key technology sectors: clean technology, digital media, life sciences, and information technology sectors. BCRCF makes capital commitments to venture capital funds managed by professional, private-sector fund managers. The venture capital fund managers are selected using a Request for Qualifications process.

**PERFORMANCE ANALYSIS**

BCRCF committed \$4 million to one fund manager in 2012-13, resulting in aggregate capital commitments of \$90 million to eight fund managers. This completes the \$90 million in capital commitments that BCIF has allocated to BCRCF for venture capital investments.

**DATA SOURCES FOR PERFORMANCE MEASURES**

The data is drawn from a subscription agreement between BCRCF and a selected fund manager for the period April 1, 2012 to March 31, 2013.

**Goal 2: To stimulate economic development through the commercialization of innovation and venture capital investment in high technology in B.C.**

**STRATEGIES**

- Invest up to \$90 million with venture capital fund managers with a track record of success.
- Leverage BCRCF’s venture capital investments to attract new investment in B.C. companies focused in the clean technology, digital media, life sciences, and information technology sectors.

Performance Measures (\$ millions)	Actuals			Target			Variance
	10/11	11/12	12/13	12/13	13/14	14/15	12/13
1. Cumulative capital call on BCRCF’s commitments to Fund Managers	25	35	47	55	65	75	-8
2. Cumulative Investment by BCRCF Fund Managers in B.C. Companies	66	85	104	110	130	150	-6
3. Cumulative Investment by BCRCF Fund Managers and Syndicate Partners in B.C. Companies	100	138	196	193	228	263	+3

**IMPORTANCE OF THE PERFORMANCE MEASURES**

The venture capital fund managers draw down BCRCF’s capital commitment when they complete a financing round in a given portfolio company. Each round of financing is comprised of one or more investments, depending on the presence of co-investors. Aggregate investments in B.C. companies indicate our progress in achieving the objectives of increasing the probability that innovative new goods and services in B.C. gain full-scale commercialization and increasing the depth of the venture capital market in B.C.

**PERFORMANCE ANALYSIS**

The BCRCF fund managers and their syndicate partners have invested an aggregate of \$196 million in B.C. companies since inception. These results demonstrated a leverage factor of 4.2 times the BCRCF contribution of \$47 million, compared to the target of 3.5 times (193/55).

Economic uncertainty and a weak IPO market continue to dampen opportunities to exit companies. Thus, venture capital returns are expected to be realized in the latter half of the fund’s life. In anticipation of a longer path to liquidity, fund managers will likely redirect capital to shore up existing portfolio companies and be more cautious with the rate at which they deploy capital.

## **DATA SOURCES FOR PERFORMANCE MEASURES**

The data is drawn from BCRCF's asset management system and the venture capital fund managers' quarterly reports for the period April 1, 2012 to March 31, 2013.

## **KEY ASSUMPTIONS**

This Report on Performance includes forecast information that, in the opinion of the Board of Directors and their advisors, is based on reasonable assumptions.

The BCIF assumes that the federal Program will continue to provide monthly allocations at the current levels for the next fiscal year. Through the first half of 2013, BCIF receipts are consistent with expectations and on pace to meet annual targets.

Actual results may differ materially from previous forecast information as a result of various factors, some of which are beyond the BCIF's control.

## **RISKS**

Steps described below outline how identified risks of the BCIF are being managed by the Board and its management.

### **TERMINATION OF FEDERAL IMMIGRANT INVESTOR PROGRAM**

An unanticipated termination of the federal Program by the federal government could have a material impact on the financial condition of the BCIF and could lead to the drawdown of at least some of the \$500 million provincial guarantee. This could arise because the amount that BCIF invests is made with an expectation of future receipts from the federal government to fund upcoming and known obligations for returning funds to Ottawa. From our discussions with the federal administrators, the BCIF believes that the likelihood of Program termination without significant notice is low.

### **INTEREST RATE RISK**

Interest rate risk means that changes in interest rates may affect the financial position of the BCIF. BCIF manages its exposure to interest rate risk by holding a portfolio of fixed and floating rate investments. BCIF has invested its funds in capital projects with fixed rate obligations and investments with B.C. Investment Management Corporation ("bcIMC") on a floating rate basis. Material movements in interest rates will impact revenues from the floating rate portfolio, and the return on new funds and re-investment of capital in the future.

The recent economic slowdown has resulted in central banks lowering administered interest rates which in turn have significantly reduced interest income from short term investments. A low interest rate environment may continue well into 2013/14 and would impact BCIF investments with bcIMC.

## **MARKET RISK**

Market risk is the risk of changes in the value of venture capital investments. These investments are at the high end of the risk spectrum, typically in illiquid private companies. Further cash distributions from venture capital partnerships are not expected to begin until more than five years after the date of initial capital commitment, i.e. starting in 2013. Note that BCRCF has begun to experience some distributions, with a \$1.5 million distribution in December 2012 and a \$338,000 distribution subsequent to year-end, in April 2013.

The BCRCF has managed this risk by conducting due diligence, with the assistance of an independent financial advisor, on each of the prospective venture capital fund managers. The purpose of the due diligence was to confirm that each of the fund managers has a demonstrated track record of successful investing in high technology businesses in the four key sectors. Furthermore, BCRCF diversifies its venture capital investments across industries and geographic regions and limits its allocation to no more than 20% of any given individual venture capital fund.

The venture capital investments also pose foreign currency risk because some of the selected funds are denominated in U.S. dollars. BCIF mitigated this currency risk by purchasing U.S. dollars in 2007 at an exchange rate of approximately one-to-one (Canadian dollar at par with U.S. dollar).



# Progress Towards the 2012/13 Government Letter of Expectations

For 2012/13, the Government provided direction to BCIF that was consistent with the Province's general direction to Crown corporations. This was contained in the Government's Letter of Expectations and included specific governance instructions regarding the roles and responsibilities of the signatories.

In addition, the Government directed BCIF to take the following specific actions:

- **BCIF will monitor and report on its capital commitments of up to \$90 million in venture capital investments.**  
As of March 31, 2013, BCRCF had committed \$90 million to eight fund managers. This completes the \$90 million in capital commitments that BCIF has allocated to BCRCF for venture capital investments.
- **BCIF will invest available funds in Government's Reporting Entity to finance provincially-approved capital projects that also qualify under the applicable federal regulations.**  
In 2012-13, BCIF made a loan of \$45 million to the Province of British Columbia to help fund three public infrastructure projects that have been approved for organizations within the Government Reporting Entity.
- **BCIF will use British Columbia Investment Management Corporation ("bcIMC") for investment of funds in liquid investments, other than amounts allocated to venture capital and Government Reporting Entity investments.**  
BCIF continued to use bcIMC's services to invest unplaced funds under administration in liquid instruments.
- **BCIF will, in consultation with the Ministry, Crown Agencies Resource Office and Board Resourcing and Development Office, refine its governance and Board structure.**  
In July 2012, six new Board members with relevant business experience from the private sector were formally appointed to BCIF. New governance policies are under development with the assistance of a board governance expert.
- **BCIF will explore opportunities to invest its capital in ways that meet its core objectives and support the Government's economic and jobs strategy.**  
BCIF and the Ministry are working together to identify new investment opportunities that are consistent with the Government's economic and jobs strategy, while satisfying the BCIF's asset allocation and risk management requirements.

# Financial Report: Consolidated Financial Statements and Notes

## MANAGEMENT'S DISCUSSION AND ANALYSIS

BCRCF is focused on four objectives to build anchor companies and foster a sustainable venture capital ecosystem in B.C. The following is a summary of our accomplishments in 2012-13, with respect to venture capital.

Objective	Outcome
<ul style="list-style-type: none"> <li>• <b>Generate superior, risk-adjusted returns for the capital committed.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Received \$1.5 million distributions from venture capital portfolio from the sales of portfolio companies.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Increase the probability that innovative new goods and services in B.C. gain full-scale commercialization.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Leveraged our \$12.5 million capital called into \$56 million invested in B.C. companies, a leverage factor of 4.5 times.</li> <li>• Sponsored investor forums to ensure venture capital and angel investor engagement in various entrepreneurial events.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Increase the depth of the venture capital market in B.C.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Committed \$4 million to Azure Capital Partners III, focused on early-stage information technology companies, including software and web-based applications, consumer internet and IT &amp; telecom infrastructure.</li> <li>• Completed the \$90 million in capital commitments that BCIF allocated to BCRCF for venture capital investments.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Enhance the visibility of B.C. as an attractive market for venture capital opportunities in North America and globally.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Raised B.C.'s profile by leveraging sponsorship in various venture capital industry events.</li> <li>• Engaged with non-domiciled venture capital fund managers to explore investment opportunities in B.C.</li> </ul>

**Consolidated Financial Statements of**

**BC IMMIGRANT INVESTMENT  
FUND LTD.**

**Year Ended March 31, 2013**

## MANAGEMENT'S REPORT

### Management's Responsibility for the Consolidated Financial Statements

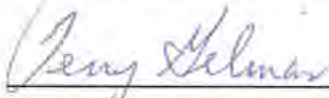
The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements. A summary of the significant accounting policies are described in Note 2 to the consolidated financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Board. The Board reviews internal consolidated financial statements on a monthly basis and external audited consolidated financial statements yearly. The Board also discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The Auditor General of British Columbia conducts an independent examination, in accordance with Canadian auditing standards, and expresses his opinion on the consolidated financial statements. The external auditors have full and free access to financial management of the Corporation and meet when required. The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of BC Immigrant Investment Fund Ltd,



Terry Gelinas, Comptroller



Jeff Lindsay, Senior Portfolio Manager

Victoria, B.C.  
May 28, 2013



## INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of BC Immigrant Investment Fund Ltd. and  
To the Minister of Jobs, Tourism and Skills Training, Province of British Columbia*

I have audited the accompanying consolidated financial statements of BC Immigrant Investment Fund Ltd. ("the entity"), which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of operations, remeasurement gains and losses, changes in net 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

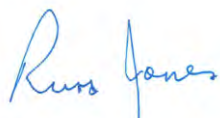
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 entity'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 financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BC Immigrant Investment Fund Ltd. as at March 31, 2013, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Victoria, British Columbia  
May 28, 2013

  
Russ Jones, MBA, CA  
Auditor General (Acting)

**BC IMMIGRANT INVESTMENT FUND LTD.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(in \$000)***AS AT MARCH 31,****2013****2012****Financial Assets**

Cash	285	6,075
Portfolio investments	25,033	76,909
Accounts receivable	1	2
Loan receivable (Note 3)	328,850	312,995
Venture investments (Note 4)	46,902	34,718
	<u>401,071</u>	<u>430,699</u>

**Liabilities**

Accounts payable and accrued liabilities	135	140
Promissory notes (Note 5)	362,904	398,179
	<u>363,039</u>	<u>398,319</u>

**Net financial Assets**38,032      32,380**Non-financial assets**

Prepaid expenses	<u>5</u>	<u>5</u>
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**Accumulated surplus**38,037      32,385


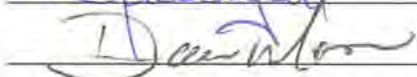
Accumulated surplus is comprised of:

Accumulated operating surplus	37,808	32,452
Accumulated rereasurement gains / (losses)	229	(67)

38,037      32,385

## COMMITMENTS AND SUBSEQUENT EVENTS (Note 7)

APPROVED BY THE BOARD:

	Director
	Director

*The accompanying notes are an integral part of these consolidated financial statements.*

**BC IMMIGRANT INVESTMENT FUND LTD.****CONSOLIDATED STATEMENT OF OPERATIONS***(in \$000)*

<b>FOR THE YEAR ENDED MARCH 31,</b>	<b>Budgeted Figures (Note 11)</b>	<b>2013</b>	<b>2012</b>
Revenues:			
Venture capital investment income	-	1,545	6
Portfolio investment income	661	439	1,136
Interest income	9,108	9,611	9,691
	<u>9,769</u>	<u>11,595</u>	<u>10,833</u>
Expenses:			
Public Sector Infrastructure Investment Program <i>(Note 10)</i>	5,081	5,895	5,476
Venture Capital Investment Program <i>(Note 10)</i>	296	344	262
	<u>5,377</u>	<u>6,239</u>	<u>5,738</u>
Annual operating surplus	4,392	5,356	5,095
Accumulated annual operating surplus at beginning of year	<u>32,452</u>	<u>32,452</u>	<u>27,357</u>
Accumulated annual operating surplus at end of year	<u>36,844</u>	<u>37,808</u>	<u>32,452</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**BC IMMIGRANT INVESTMENT FUND LTD.****CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES***(in \$000)*

<b>FOR THE YEAR ENDED MARCH 31,</b>	<b>2013</b>	<b>2012</b>
Accumulated remeasurement gains and (losses) at the beginning of the year	<u>(67)</u>	-
Unrealized gains (losses) attributable to:		
Foreign exchange gain (loss)	269	(45)
Portfolio investment gain (loss)	56	(22)
Amounts reclassified to the statement of operations:		
Foreign exchange	(28)	-
Portfolio investment	<u>(1)</u>	-
Change in remeasurement gains and (losses) for the year	<u>296</u>	<u>(67)</u>
Accumulated remeasurement gains and (losses) at the end of the year	<u>229</u>	<u>(67)</u>

*The accompanying notes are an integral part of these consolidated financial statements.*



**BC IMMIGRANT INVESTMENT FUND LTD.****CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS***(in \$000)*

<b>FOR THE YEAR ENDED MARCH 31,</b>	<b>2013</b>	<b>2012</b>
Annual operating surplus	5,356	5,095
Acquisition of prepaid expenses	(15)	(15)
Use of prepaid expenses	<u>15</u>	<u>15</u>
	5,356	5,095
Effect of remeasurement gains and losses	<u>296</u>	<u>(67)</u>
Increase in net financial assets	5,652	5,028
Net financial assets at the beginning of the year	<u>32,380</u>	<u>27,352</u>
Net financial assets at the end of the year	<u>38,032</u>	<u>32,380</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**BC IMMIGRANT INVESTMENT FUND LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS***(in \$000)*

<b>FOR THE YEAR ENDED MARCH 31,</b>	<b>2013</b>	<b>2012</b>
Operating transactions:		
Annual Surplus	5,356	5,095
Items not involving cash:		
Amortization of promissory discount	5,436	5,197
Changes in non-cash operating working capital:		
Accounts receivable	1	(1)
Accounts payable	(5)	90
Accrued loan interest	(39)	12
Annual remeasurement gains (losses)	296	(67)
Cash provided by operating activities	<u>11,045</u>	<u>10,326</u>
Financing transactions:		
Cash received from promissory notes	58,429	85,348
Repayment/refund of promissory notes	<u>(99,141)</u>	<u>(39,242)</u>
Cash provided by financing activities	<u>(40,712)</u>	<u>46,106</u>
Investing transactions:		
Repayment of loan principal	29,185	18,043
Loans issued to related parties	(45,000)	(90,000)
Capital calls to venture capital funds	(12,523)	(9,614)
Return of capital from venture capital funds	339	-
Cash provided by investing activities	<u>(27,999)</u>	<u>(81,571)</u>
(Decrease) in cash and cash equivalents	(57,666)	(25,139)
Cash and cash equivalents at beginning of year	<u>82,984</u>	<u>108,123</u>
Cash and cash equivalents at end of year	<u>25,318</u>	<u>82,984</u>
Cash and cash equivalents is comprised of the following:		
Cash	285	6,075
Portfolio investments	<u>25,033</u>	<u>76,909</u>
	<u>25,318</u>	<u>82,984</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

# **BC IMMIGRANT INVESTMENT FUND LTD.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in \$000)*

**FOR THE YEAR ENDED MARCH 31, 2013**

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### **1. NATURE OF BUSINESS**

BC Immigrant Investment Fund Ltd. (the "Corporation") was incorporated on September 19, 2000, under the laws of British Columbia and is wholly owned by the Province of British Columbia.

The Corporation is an approved fund under the Federal Immigrant Investor Program (the "Program"). The Program provides an opportunity for experienced business persons to immigrate to Canada after making an investment in a fund approved by a Province and the Minister of Citizenship and Immigration. The accumulated operating surplus includes one issued common share of the Corporation, of nominal value, which are held by the Minister of Jobs, Tourism and Skills Training. The Minister acts as agent for approved funds by receiving investments from immigrant investors and disbursing them to approved funds according to an allocation formula set out in the Immigration Regulations, 1978. The regulations require approved funds participating in the Program to invest in economic initiatives, which will create employment in Canada to foster the development of a strong and viable economy.

The Minister of Finance acts as a fiscal agent for the Corporation. The Corporation is exempt from federal and provincial taxes.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of Accounting*

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles established by the Canadian Public Sector Accounting Board.

#### *Basis of Consolidation*

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Corporation and its wholly owned subsidiary, B.C. Renaissance Capital Fund Ltd. ("BCRCF"). All intercompany transactions and balances have been eliminated upon consolidation.

On October 22, 2007, BCRCF was incorporated under the Business Corporations Act and is wholly owned subsidiary of the BC Immigrant Investment Fund Ltd. The primary business of the BCRCF is to stimulate economic development by making investments into venture capital limited partnerships.

#### *Prepaid Expenses*

Prepaid expenses include software licensing amounts and are charged to expense over the period expected to benefit from it.

## **BC IMMIGRANT INVESTMENT FUND LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in \$000)*

**FOR THE YEAR ENDED MARCH 31, 2013**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### *Revenue Recognition*

Revenues are recognized in the period in which the transactions or events occurred that gave rise to revenues.

Investment income represents interest and realized foreign exchange gains and losses earned in operating cash accounts and portfolio investments and is recognized on an accrual basis.

Interest income from loans receivable is recognized on an accrual basis.

##### *Expenses*

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

##### *Promissory Note Discount*

Promissory notes are received at a discount. The discount is recognized as an expense on a straight-line basis over the term of promissory note.

As promissory notes were established by the Immigration Regulations, 1978, they are not considered financial instruments and the discount is not recognized as interest expense.

##### *Foreign Currency Translation*

Foreign currency transactions are translated at the exchange rate prevailing at the date of transactions.

Monetary assets and liabilities, and non-monetary items included in the fair value measurement category denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

# BC IMMIGRANT INVESTMENT FUND LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

FOR THE YEAR ENDED MARCH 31, 2013

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial Instruments*

Equity instruments quoted in an active market are measured at fair value. All other financial assets and financial liabilities are measured at cost or amortized cost. The following classification system is used to describe the basis of the inputs used to measure the fair value of financial instruments in the fair value measurement category:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
Level 3	Inputs for the asset or liabilities that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

All financial assets recorded at fair value are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write-down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

i. Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. The investments have a maturity of six months or less at acquisition and are held for the purpose of meeting short-term cash commitments rather than for investing. They consist of equities which are reported at fair value and are measured using a Level 1 valuation.

# BC IMMIGRANT INVESTMENT FUND LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Tabular amounts in \$000)*

FOR THE YEAR ENDED MARCH 31, 2013

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. Accounts and loans receivable

Accounts and loans receivable are recorded at amortized cost using the effective interest method less any amount for valuation allowance. Valuation allowances are made to reflect loans receivable at the lower of amortized cost and net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations. Interest is accrued on loans receivable to the extent it is deemed collectible.

iii. Venture investments

The Corporation invests in venture investments as a limited partner. These investments are reported at cost as there is no quoted market price in an active market.

iv. Debt and other financial liabilities

All debt and other financial liabilities are recorded using cost or amortized cost.

## BC IMMIGRANT INVESTMENT FUND LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

#### FOR THE YEAR ENDED MARCH 31, 2013

### 3. LOANS RECEIVABLE

	March 31 2013	March 31 2012
Due from British Columbia Institute of Technology, principal of \$60,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 2.70% over a 6 year term. The outstanding balance of this loan will be due in full on August 1, 2017.	52,143	53,962
Due from University of the Fraser Valley, principal of \$13,919,748, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 5.15% over a 25 year term. The outstanding balance of this loan will be due in full on August 1, 2017.	12,277	12,635
Due from University of Victoria, principal of \$5,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 4.75% over a 20 year term. The outstanding balance of this loan will be due in full on March 1, 2017.	3,977	4,173
Due from Nicola Valley Institute of Technology, principal of \$3,300,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 4.9% over a 30 year term. The outstanding balance of this loan will be due in full on September 1, 2017. The loan had an interest free period which impacted the accounting balance and effective rate of loan. For accounting purposes, the estimated interest foregone has been recorded as an increase in the loan receivable using the effective interest method to the maturity date of the loan and will be accredited to interest income over the term of the loan. As a result, the effective interest rate on the loan is 4.77% per annum.	3,031	3,098
Carried forward	71,428	73,868

**BC IMMIGRANT INVESTMENT FUND LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Tabular amounts in \$000)***FOR THE YEAR ENDED MARCH 31, 2013****3. LOANS RECEIVABLE (continued)**

	<b>March 31 2013</b>	<b>March 31 2012</b>
Brought forward	71,428	73,868
Due from Simon Fraser University, principal of \$5,100,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 5.20% over a 30 year term. The outstanding balance of this loan will be due in full on June 1, 2017.	1,285	1,548
Due from the Province of British Columbia, principal of \$100,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 3.46% over a 10 year term. The outstanding balance of this loan will be due in full on December 16, 2019.	71,296	80,518
Due from the Province of British Columbia, principal of \$75,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 3.18% over a 10 year term. The outstanding balance of this loan will be due on December 9, 2020.	60,249	67,000
Due from the Province of British Columbia, principal of \$45,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 2.15% over a 2 year term. The outstanding balance of this loan will be due on April 21, 2013.	38,289	42,268
Due from the Province of British Columbia, principal of \$50,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 2.15% over a 9 year term. The outstanding balance of this loan will be due on September 16, 2019.	43,212	47,793
Due from the Province of British Columbia, principal of \$45,000,000, the outstanding balance is being amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 2.24% over a 10 year term. The outstanding balance of this loan will be due on December 8, 2022.	43,091	-
Total loans receivable	<u>328,850</u>	<u>312,995</u>



# BC IMMIGRANT INVESTMENT FUND LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

FOR THE YEAR ENDED MARCH 31, 2013

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### 4. VENTURE INVESTMENTS

The B.C. Renaissance Capital Fund Ltd. invests in funds as a limited partner and has investments in nine venture funds with ownership percentages varying from 0.50% to 15.14%. To date the value of the investments total \$46.90 million (2012 - \$34.72 million).

### 5. PROMISSORY NOTES

The funds received from the Federal Immigrant Investor Program are repayable, without interest, five years after they are received. The obligation of the Corporation is represented by non-transferable zero interest promissory notes. The Province of British Columbia fully guarantees these funds up to a maximum of \$500 million. The Corporation received a payment on March 21, 2013 for April 2013, and will continue to receive funds provided the total amounts owing do not exceed \$500 million.

Promissory note discount represents the amounts withheld on promissory notes received. The amount is amortized over the life of the note.

	<u>March 31</u> <u>2013</u>	<u>March 31</u> <u>2012</u>
Total promissory notes, beginning of year	413,195	361,244
Additions during the year	62,294	91,208
Repaid or refunded during the year	(99,140)	(39,257)
	<u>376,349</u>	<u>413,195</u>
Net promissory note discount end of year	(13,445)	(15,016)
	<u>362,904</u>	<u>398,179</u>

The estimated principal payments over the next five years and thereafter are as follows:

<u>Year</u>	<u>Amount</u>
2014	39,769
2015	64,666
2016	118,542
2017	91,144
2018	62,228

# BC IMMIGRANT INVESTMENT FUND LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

FOR THE YEAR ENDED MARCH 31, 2013

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### 6. RISK MANAGEMENT

The investment activities of the Corporation expose it to a variety of financial risks including credit risk, market risk (which includes currency risk, interest rate and other price risk) and liquidity risk.

#### *Credit Risk*

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Corporation is exposed to credit risk in the event of non-performance by a public sector borrower to a maximum value of the value of loans receivable. The Corporation assesses this risk when considering loans. For the most part an unsecured and general obligation from the public sector institution is judged sufficient to mitigate credit risk; however, the Corporation has taken property as collateral on the loan to Simon Fraser University to further mitigate potential credit risks.

The Corporation is exposed to credit risk associated with its cash deposits and short-term investments. This risk is mitigated by placing deposits and investments in recognized British Columbia institutions, with investments consisting entirely of high-quality short-term funds. Therefore credit risk arising from cash deposits and short-term investments is considered negligible.

The Corporation is also exposed to credit risk in the event its returns from the venture capital initiatives are below cost. The Corporation's investment portfolio diversification is based on an investment strategy developed to generate returns to cover potential losses from its higher risk investments.

#### *Market Risk*

##### *Currency Risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency exchange risk as a result of its investments in US venture capital initiatives, US short-term investments and US dollar holdings.

Through the Corporation's venture capital initiative, the Corporation has a total of \$12.9 million USD in remaining venture capital commitments, and holds approximately \$14.0 million USD in short-term investments and cash. At the statement of financial position date, currency risk is negligible because the Corporation has enough USD each on hand to satisfy commitments made.

The Corporation manages its foreign currency risk by holding funds that are required to meet US venture capital commitments in US dollar cash and US dollar short-term investments that generate annual returns. Returns generated from investments in venture capital funds will also be in US dollars. As the timing and value of returns from these investments cannot be reasonably estimated, the impact of currency rate fluctuations can also not be estimated.

US dollar short-term investments held to provide funds for anticipated US dollar venture capital commitments have resulted in unrealized foreign exchange gains of \$0.27 million (2012 - \$0.58 million) being recognized in net income.

## BC IMMIGRANT INVESTMENT FUND LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

FOR THE YEAR ENDED MARCH 31, 2013

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#### 6. RISK MANAGEMENT (continued)

##### *Currency Risk (continued)*

To date the Corporation has made transfers totaling \$26.38 million USD which has translated to \$27.28 million CAD equivalent based on the foreign exchange rates in effect at the time of the capital calls. The \$26.38 million USD would translate to \$25.96 million CAD based on the foreign exchange rate in effect when the funds were invested in USD short-term investments to be held for the purposes of making capital calls. Therefore, the Corporation has saved \$1.32 million CAD to date on capital calls made by having converted CAD funds to USD short-term investments.

##### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Corporation is exposed to interest rate risk through its short-term investments. The Corporation manages its exposure to interest rate risk by holding a portfolio of fixed and floating rate investments. The Corporation has invested its funds in loans receivable with fixed rate returns and investments with British Columbia Investment Management Corporation (BCIMC) on a floating rate basis.

If the Corporation were to have experienced a 1% change in the interest rate earned this would have impacted interest income in the approximate amount of \$0.47 million (2012 - \$1.07 million) calculated as 1% of the average book value of short-term investments throughout the year.

##### *Other Price Risk*

Other price risk is the risk that the market value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation is exposed to other price risk through its venture investments as by nature, investments in venture capital funds carry a high risk; however, the Corporation mitigates the risk by utilizing the expertise and skills of institutional venture capital managers with a track record of commercial returns.

##### *Liquidity Risk*

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. In connection with the Corporation's ongoing financing of operations including refinancing risk, management aims to ensure adequate liquidity of investments. The Corporation is exposed to liquidity risk as the future amounts of the Federal Immigrant Investor Program receipts are unknown to the Corporation. The Corporation manages its liquidity risk by placing deposits in cash and extremely liquid negotiable instruments, and monitoring the duration of lending/investing activities of the Corporation to coincide with five year forecasted repayment obligations (Note 5) as well as anticipated periods where the \$500 million maximum funding from the Immigrant Investor Program will have been reached and additional funding will be temporarily halted.

The Corporation is also exposed to liquidity risk associated with the venture capital initiatives. The Corporation cannot readily sell the investments. As the Corporation invests in early stage venture capital initiatives that have a limited history of operations and whose business activities tend to be speculative, there is no assurance that such investments will provide positive future cash flows. The Corporation attempts to manage liquidity risk by utilizing the expertise and skills of institutional venture capital managers with a track record of commercial returns.

## **BC IMMIGRANT INVESTMENT FUND LTD.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in \$000)*

**FOR THE YEAR ENDED MARCH 31, 2013**

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#### **7. COMMITMENTS AND SUBSEQUENT EVENTS**

At March 31, 2013 B.C. Renaissance Capital Fund Ltd. held commitments to invest as a limited partner in certain funds. The Corporation has a total commitment of \$39.28 million USD and to date has made transfers totaling \$26.36 million USD leaving a remaining commitment of \$12.92 million USD. The remaining commitment translates to \$13.13 million CAD. The Corporation has a total commitment of \$51.00 million CAD and to date has made transfers totaling \$19.96 million CAD leaving a remaining commitment of \$31.04 million CAD. The aggregate future commitments to venture capital funds are \$44.17 million CAD.

During the 2009 fiscal year, the Corporation entered into a 5 year software license that calls for annual payments of \$15,000 USD. Based on the exchange rate in effect at the statement of financial position date the CAD equivalent would be \$15,240 per annum.

On April 29, 2013, the Corporation entered into a loan agreement with the University of Victoria. Due from University of Victoria, principal of \$10,000,000, the outstanding balance will be amortized in equal blended quarterly payments of interest and principal at an annual interest rate of 2.4796% over a 10 year term. The outstanding balance of this loan will be due in full on May 2, 2023.

#### **8. INDEMNITIES**

As part of the Corporation's initiative to develop a portfolio of venture investments it has entered into the following partnerships: Arch Venture Fund VII, L.P., Kearny Venture Partners, L.P., VantagePoint Clean Tech Partners II, L.P., VantagePoint Venture Partners 2006 (Q), L.P., Azure Capital Partners III, L.P. Yaletown Ventures II, L.P., Tandem Expansion Fund I, L.P., (the Partnerships), VanEdge Capital I, L.P., and iNovia Investment Fund III L.P. Under the terms of the partnership agreements, each Partnership has agreed to indemnify its General Partner (including their members, employees and agents) for certain liabilities, which the General may incur as a result of activities undertaken in their capacity as General Partners. Management believes that no such liabilities exist at March 31, 2013.

#### **9. RELATED PARTY TRANSACTIONS**

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies, Crown corporations and all other public sector organizations. Transactions with these entities are in the normal course of operations and are recorded at the exchange amount.

The Province provides certain general administrative services to the Corporation on a cost recovery basis.

The Province of British Columbia has provided a guarantee to the federal government for the balance of the promissory notes payable up to a maximum of \$500 million.

# BC IMMIGRANT INVESTMENT FUND LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in \$000)

FOR THE YEAR ENDED MARCH 31, 2013

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### 9. RELATED PARTY TRANSACTIONS (continued)

Assets and liabilities with related parties include:

	<u>March 31</u> <u>2013</u>	<u>March 31</u> <u>2012</u>
Loans receivable (Note 3)	328,850	312,996
Accounts payable and accrued liabilities	(99)	(125)

The consolidated statement of operations includes the following transactions with related parties:

	<u>March 31</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>
Interest income	9,599	9,676
Investment fees	140	140
Professional fees	219	245

### 10. EXPENSES BY OBJECT

The following is a summary of expenses by object:

	<u>March 31</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>
Advertising and promotion	52	22
Amortization of promissory note discount	5,437	5,197
Investment fees	189	183
Board of Director fees	68	-
Office and business expenses	78	31
Professional fees	415	305
	<u>6,239</u>	<u>5,738</u>

### 11. BUDGETED FIGURES

Budgeted figures have been provided for comparison purposes and have been derived from the 2012/13 Service Plan approved by the Board Chair on February 20, 2012.

# Information on Subsidiary

As described above, BCIIIF has one subsidiary, BCRCF. The purpose of the subsidiary is to invest in venture capital.

# Contact Information

## **BC Immigrant Investment Fund Ltd.**

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