

Southern Interior

DEVELOPMENT INITIATIVE TRUST



About the Southern Interior Development Initiative Trust Annual Report

This report covers the Southern Interior Development Initiative Trust (SIDIT) for the period April 1, 2016 through March 31, 2017.

The report was prepared for our stakeholders, the British Columbia Provincial Government, and reflects SIDIT's commitment to support economic development in the Southern Interior.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

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2017 Message from the Board of Directors Chair, Grace McGregor

It has been another productive and progressive year at the Southern Interior Development Initiative Trust ("SIDIT"). As highlighted in 2016, SIDIT has had remarkable achievements over the last 11 years. The SIDIT story began on February 27, 2006, when the Provincial BC Government made a one-time allocation of \$50 million to support strategic investments in economic development projects in the Southern Interior. SIDIT has preserved that \$50 million asset and invested nearly \$55 million in projects worth over \$218 million.

As part of SIDIT's ongoing reporting and self-evaluation commitment, it had a third-party Socio-Economic Impact Assessment Report (the "Report") prepared by Lochaven Management Consultants/Urban Matters in 2016. The Report reviewed both qualitative and quantitative impact related information, and employed both primary and secondary research. The Report noted that through its funding efforts since 2006, SIDIT contributed to the creation and preservation of 3,113 short and long term jobs. The Board of Directors and myself, are very proud of what this Report highlighted and confirmed that the efforts of the current and previous Board of Directors, and the hard work of the SIDIT Staff is paying off, in long-term sustainable and measurable solutions for economic development in the Southern Interior Region.

As part of SIDIT's ongoing commitment to collaboration and partnerships, SIDIT undertook two new programs in Fiscal 2017, and are starting to see the benefits of those programs.

One of those programs is the Student Co-Op Program, developed by UBC Okanagan. Students are placed in small to medium size businesses in the Southern Interior, with a portion of their wage cost subsidized by SIDIT.

This collaborative effort between SIDIT and UBC Okanagan assists businesses in the local communities build capacity and provides students with the hands on training

opportunities they need in the work force. As a result, this collaboration provides long-lasting and measurable benefits to the people and communities in the Southern Interior Region. SIDIT will look at expanding this program to other post-secondary institutions over the next few years.

Another exciting program initiative is the Business Advisory Services Program. The Business Advisory Services Program was officially rolled out in September 2016. Under the Program, clients are provided with customized peer to peer mentoring solutions that are developed in conjunction with that client's needs and are designed to assist them in growing and sustaining their businesses.

Testimonials from the students that SIDIT has helped achieve their goals and from clients of the Business Advisory Services Program, are highlighted at pages 48–50 of this report.

The Board of Directors and Staff of SIDIT will continue to build on our past successes by developing and maintaining collaborative partnerships and fostering entrepreneurial ingenuity, with a commitment to leveraging partnerships and funding.

Lastly, I would like to acknowledge and thank a few of our Directors who have moved on in the last year: Karen Cathcart, Elizabeth (Beth) Garrish and Philip Jones; their contributions to SIDIT during their terms as Directors is greatly appreciated. To learn more about SIDIT, please visit www.siditbc.ca.



Respectfully submitted,

A handwritten signature in dark ink that reads "Grace McGregor".

Grace McGregor
SIDIT Chairman of the Board

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Since 2006, SIDIT has preserved the initial \$50 Million asset and invested nearly \$55 Million in projects worth over \$218 Million. SIDIT's overall economic impact exceeds \$288 Million, creating and preserving more than 3000 jobs across the region. Here's a snapshot of SIDIT's 11-year impact:

CAPITAL ALLOCATION	—————	\$50 MILLION
DIRECT INVESTMENTS	—————	\$54.5 MILLION
2017 ASSETS	—————	\$50.8 MILLION
GDP LEVERAGE	—————	\$288.9 MILLION
JOB CREATION	—————	3113

Together we are bringing long-lasting and measurable benefits to the people, communities and prosperity of the Southern Interior.

Governance

SIDIT was created by an Act of the BC Legislature – Bill 8-2005, which came into force by regulation on February 27, 2006. SIDIT received a one-time allocation of \$50 million designated for strategic investments in sustainable economic development initiatives throughout the Southern Interior. The Southern Interior Development Initiative Trust Act mandates investment in ten areas of the economy. These areas include Energy, Forestry, Mining, Olympic Opportunities, Agriculture, Transportation, Small Business, Tourism, Pine Beetle Recovery, and Economic Development. SIDIT has no specific targets for any of these areas, and approves projects and investments based on their impact, sustainability, and individual merit.

Board of Directors

SIDIT is governed by a board of thirteen directors: eight are elected officials appointed by two Regional Advisory Committees; and the other five are appointed by the Province of British Columbia. The Board is responsible for identifying the strategic direction of SIDIT, policy decisions, and investment decisions in support of a variety of regional economic priorities, as well as other opportunities which contribute to the economic diversity of the Southern Interior. The Board meets quarterly in person or by telephone conference, and electronically as required.

Elected Officials



Grace McGregor
SIDIT Chairman
Director, Area C
Kootenay Boundary Region



Doug Findlater
Mayor, West Kelowna
Central Okanagan Region



Ron Hovanes
Mayor, Town of Oliver
Okanagan Similkameen Region



Loni Parker
Director, Area B
Columbia Shuswap Region



Greg McCune
Mayor, City of Enderby
North Okanagan Region



Al Raine
Mayor, Sun Peaks
Thompson Nicola Region



Aimee Watson
Director Area D
Columbia Kootenay Region



Lee Pratt
Mayor, Cranbrook
East Kootenay Region

Provincial Appointees



Claudette Everitt
SIDIT Vice-Chairman
Provincial Appointee
North Okanagan Region



David Wilks
Provincial Appointee
East Kootenay Region



John Zimmer
Provincial Appointee
East Kootenay Region



Peter Moore
Provincial Appointee
North Okanagan Region



One Vacancy

Regional Advisory Committees

Under the governing legislation, two Regional Advisory Committees (RACs) have been created representing mayors, chairs of Regional Districts, and members of the legislative assembly.

Thompson-Okanagan Regional Advisory Committee representing the region from Blue River to the North, Hope to the West and South to the US border.

Columbia-Kootenay Regional Advisory Committee representing Columbia-Revelstoke, East Kootenay to the West Kootenay-Boundary area.

The role of the Regional Advisory Committees is to elect members to the Board of Directors of SIDIT, to provide advice, recommendations on Trust funding project eligibility, to provide representation opportunities for communities and regional district areas under 500 in population.

The current Regional Advisory Committee members are as follows:



Thompson Okanagan Regional Advisory Committee Members:

NAME	LOCATION
Mayor Kevin Acton	Village of Lumby
Mayor Frank Armitage	Town of Princeton
Dan Ashton, MLA	Penticton
Mayor James Baker	District of Lake Country
Mayor Colin Basran	City of Kelowna
Mayor Manfred Bauer	Village of Keremeos
Mayor Rick Berrigan	Village of Chase
Mayor Janice Brown	Township of Spallumcheen
Christy Clark, MLA	Westside-Kelowna
Mayor Nancy Cooper	City of Salmon Arm
Bob Flemming, Chair	North Okanagan Regional District
Mayor Doug Findlater (SIDIT Director)	City of West Kelowna
Mayor Cindy Fortin	District of Peachland
Eric Foster, MLA	Vernon-Monashee
Jason Lum, Chair	Fraser Valley Regional District
Mayor Jim Garlick	District of Coldstream
Gail Given, Chair	Regional District of Central Okanagan
Mayor John Harwood	District of Clearwater
Mayor Ronald Hovanes (SIDIT Director)	Town of Oliver
Mayor Andrew Jakubeit	City of Penticton
Greg Kylo, MLA	Shuswap
Peter Milobar, MLA	Kamloops-North Thompson
Linda Larson, MLA	Boundary-Similkameen
Norm Letnick, MLA	Kelowna-Lake Country
Rhona Martin, Chair	Columbia Shuswap Regional District
Mayor Greg McCune (SIDIT Director)	City of Enderby
Mayor Sue McKortoff	Town of Osoyoos
Mayor Neil Menard	City of Merritt
Mayor Peter Milobar	City of Kamloops
Mayor Akbal Mund	City of Vernon
Karla Kozakevich, Chair	Regional District Okanagan-Similkameen
Mayor Chris Pieper	City of Armstrong
Mayor Al Raine (SIDIT Director)	Sun Peaks Mountain Resort Municipality
John Ranta, Chair	Thompson-Nicola Regional District
Mayor Terry Rysz	District of Sicamous
Mayor Virginia Smith	District of Barriere
Todd Stone, MLA	Kamloops-South Thompson
Jackie Tegar, MLA	Fraser-Nicola
Steve Thomson, MLA	Kelowna-Mission
Laurie Throness, MLA	Chilliwack-Hope
Mayor Wilfried Vicktor	District of Hope
Mayor Peter Waterman	District of Summerland

Columbia-Kootenay Regional Advisory Committee Members:

NAME	LOCATION
Loni Parker, Director (SIDIT Director)	Columbia Shuswap Regional District, Area 'B'
Ramona Faust, Director	Regional District Central Kootenay, Area E
Mayor Deb Kozak	Regional District Central Kootenay, Town of Nelson
Aimee Watson, Director (SIDIT Director)	Regional District Central Kootenay, Area D
Mayor Mary Giuliano	Regional District of East Kootenay, City of Fernie
Mayor Clara Reinhardt	Regional District of East Kootenay, Village of Radium Hot Springs
Mayor Lee Pratt (SIDIT Director)	City of Cranbrook
Linda Worley, Vice Chair	Regional District Kootenay Boundary, Area B
Neil Krog, Councillor	Regional District Kootenay Boundary, City of Grand Forks
Grace McGregor, Director (SIDIT Director)	Regional District Kootenay Boundary, Area C
Katrine Conroy, MLA	West Kootenay
Tom Shypitka, MLA	East Kootenay

Service Area

The service area for SIDIT includes Blue River to the North, Hope to the West and the United States and Alberta borders as Southern and Eastern boundaries respectively.

Thompson-Okanagan Region

REGIONAL DISTRICT OF COLUMBIA SHUSWAP

Salmon Arm, Sicamous

REGIONAL DISTRICT OF CENTRAL OKANAGAN

Kelowna, Lake Country, Peachland, West Kelowna

FRASER VALLEY REGIONAL DISTRICT

Hope

REGIONAL DISTRICT OF NORTH OKANAGAN

Vernon, Coldstream, Spallumcheen, Armstrong, Enderby, Lumby

REGIONAL DISTRICT OF OKANAGAN SIMILKAMEEN

Penticton, Summerland, Osoyoos, Oliver, Princeton, Keremeos

REGIONAL DISTRICT OF THOMPSON NICOLA

Kamloops, Merritt, Chase, Barriere, Clearwater, Sun Peaks Mountain Resort

Columbia Kootenay Region

REGIONAL DISTRICT OF COLUMBIA SHUSWAP

Revelstoke, Golden

REGIONAL DISTRICT OF EAST KOOTENAY

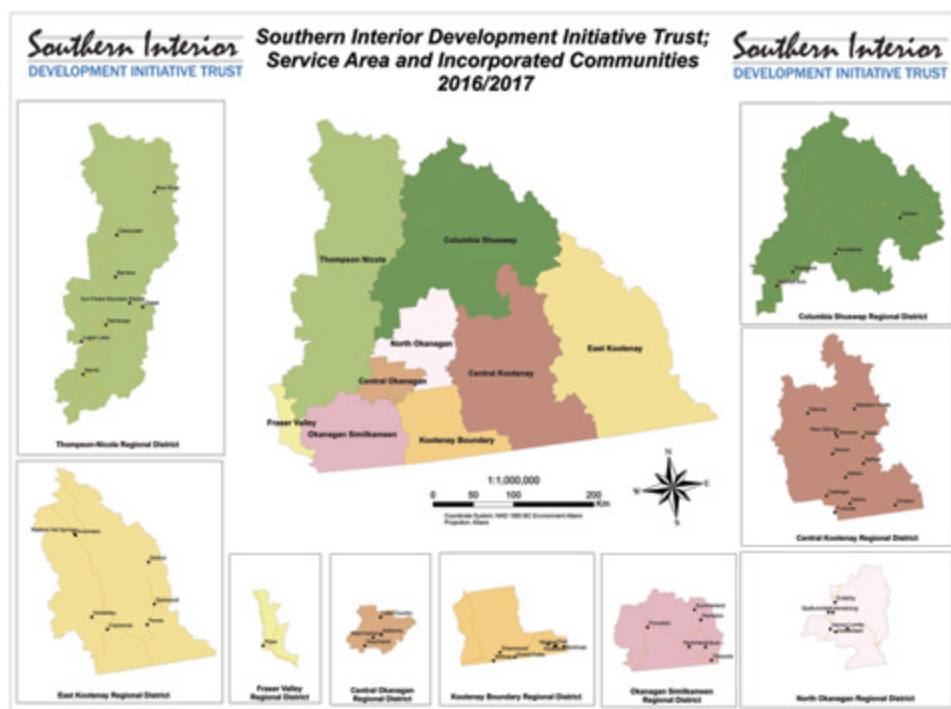
Cranbrook, Kimberley, Fernie, Sparwood, Invermere, Elkford, Canal Flats, Radium Hot Springs

REGIONAL DISTRICT OF CENTRAL KOOTENAY

Nelson, Castlegar, Creston, Nakusp, Salmo, Kaslo, New Denver, Slocan, Silverton

REGIONAL DISTRICT OF KOOTENAY BOUNDARY

Trail, Grand Forks, Rossland, Fruitvale, Warfield, Montrose, Greenwood, Midway



Vision and Mission

The SIDIT Board of Directors and Regional Advisory Committee members share a vision of the future for the Southern Interior, as follows:

- *a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities*
- *a future where regional investment creates significant positive impacts across the region while smaller communities are given opportunities to remain or become economically sustainable*
- *a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout*

The Board's mission expresses how they see the Trust contributing to this vision for Southern Interior, as follows:

- *The mission of the Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.*

SIDIT Mandate

The Southern Interior Development Initiative Trust Act mandates investment in economic development initiatives within ten key sectors that will demonstrate long term measurable economic impact within the Southern Interior. While the Trust is not an agent of the Government, as a Public Trust it must comply with public sector regulations.

The ten key sectors are:

- Agriculture
- Economic development
- Energy
- Forestry
- Mining
- Tourism (make a second column here)
- Olympic opportunities
- Pine Beetle recovery
- Small Business
- Transportation

SIDIT is managed as an independent and sustainable regional economic development corporation. SIDIT's capital is invested in a balanced mix of financial markets and loan or equity investments in regionally based commercial enterprise to ensure sustainability and growth. Funding outflows align with returns generated.

Within its mandate, SIDIT lends to and invests in promising commercial enterprises. SIDIT assesses the long-term potential of lending and investment opportunities and will consider a more patient position than would a traditional lender.

Funding by Investment Sector

Applications received are proponent driven, therefore there are no specific investment targets for any of the ten key areas. SIDIT approves projects and investments based on their impact, sustainability, and individual merit.

Fiscal 2017 Investment by Sector

Agriculture, \$162,500

Agriculture includes: manufacture of products used in the agriculture industry; research and development in agri-business and biotechnology resources; community based food and herb production; nurseries; community based abattoir services; organic gardening training and certification services and community based Agriplex/multi-purpose buildings.

Economic Development, \$584,711

Economic Development includes: investment in education in trades; technology and science related academic programs; innovation and entrepreneurship programs; business advocacy; international market development; business incubators; research and development; business productivity training; broadband initiatives and community investment in conference and training centers.

Energy, \$750,000

Energy includes: research and development of energy related technology; energy efficiency products and services; and bio-energy solutions.

Forestry, \$25,000

Forestry includes: those investments related to community forests and value added industry.

Mining, \$0

Mining includes value-added manufacturing.

Tourism, \$784,300

Tourism includes heritage-based tourism, geo-tourism, trail development, arts and culture and sports tourism.

Olympic Opportunity, \$25,000

Olympic Opportunities reflect community investments into training facilities and equipment that have been or will be used to train future Olympians.

Pine Beetle Recovery, \$0

Pine Beetle Recovery includes: research and development; market development; and manufacture of value-added products.

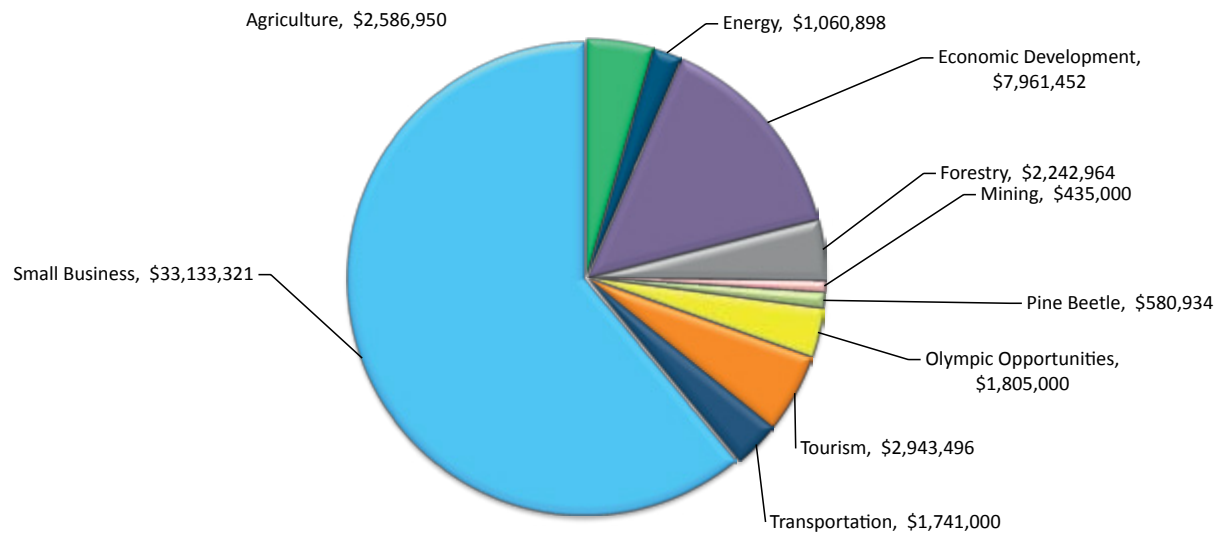
Small Business, \$3,120,000

Small Business includes: investment in business enterprises such as software development, communications; fire prevention; health care; pharmaceuticals; composite manufacturing; electronics manufacturing; retail and wholesale; micro-breweries and other business activities.

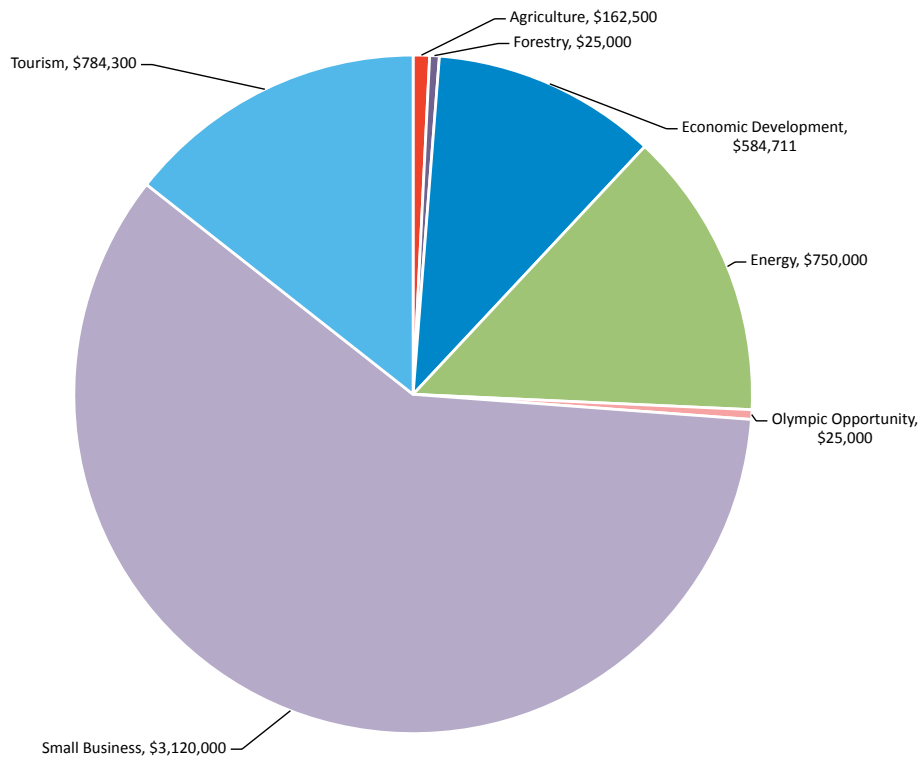
Transportation, \$0

Transportation includes: commercial transportation services; airport hazard equipment; and heliport construction.

2007-2017 Cumulative Investment by Sector



2017 Investment by Sector



Guiding Principals

In all our dealings SIDIT is:

- Sensitive to the cultural uniqueness and diversity of the population of the Southern Interior.
- Accountable to the public for all of SIDIT's activities and transparent in all of our processes, decisions and reporting.
- Treat everyone with respect and dignity
- Support only those projects that comply with all applicable environmental legislation.
- Support projects that add value to the communities and regions of the Southern Interior.
- Responsive to the needs and aspirations of the people and communities in the Southern Interior.
- Maintain a sustainable Trust that can provide ongoing support for economic initiatives for the Southern Interior.
- Encourage investment in the Southern Interior through leveraging and by acting as a catalyst.
- Support the creation, preservation and/or enhancement of employment in the Southern Interior.
- To the best extent possible, ensure that all regions of the Southern Interior have fair and equitable access to the SIDIT Funds.
- Support economic diversification and sustainability within Southern Interior communities.
- Support and create sound, economically viable communities.

Socio-Economic Impact Assessment

Complete an external Socio-Economic Impact Assessment every five years:

- A regional impact assessment was completed by Urban Matters and Lochaven Management Consultants in August 2016.
- The impact assessment will be updated in 2021.
- The assessment, and additional economic data, was reviewed by the SIDIT Board of Directors in the strategic planning session on September 8, 2016 to prepare SIDIT's fiscal 2018-2020 three-year strategic plan.

Risk and Risk Management Strategies

SIDIT FACES THE FOLLOWING KEY RISKS IN ITS INVESTMENTS AND OPERATIONS:

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower to honour its financial or contractual obligation to SIDIT. Credit risk primarily arises from development initiatives receivable. Within its mandate, SIDIT lends to, and invests in, promising commercial enterprises that may not fully qualify for credit through traditional sources. SIDIT assesses the long-term potential of lending and investment opportunities and will consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

It is envisioned that loans and investments made by SIDIT will eventually become bankable at which time the enterprise may retire the SIDIT position in favour of a traditional lender, allowing SIDIT's funds to be re-invested in other promising enterprises. If there are any business proposals presented to SIDIT in which SIDIT does not have the specific commercial knowledge, it will search out or contract the expertise. Alternatively, SIDIT will also parri passu, syndicate or co-fund these types of commercial ventures with other Lending Partners that have the expertise required.

SIDIT Management and Board of Directors review and update the credit risk policy annually. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

SIDIT determines enterprise risk based on a careful study of the business plan, past performance of the enterprise if applicable and management capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be achieved.

Within the context of the SIDIT Act, SIDIT balances the level of risk that is present with the community economic benefits that are being created and satisfies itself that the potential of the deal is sound and prudent in order to protect the future of the SIDIT fund.

All applications are risk-rated according to SIDIT's Risk Rating Guidelines (refer to SIDIT's By-law and Policy Manual on our website) as part of the original underwriting of loans and investments, annual review and renewal.

SIDIT manages its loan and equity risk by limiting its investment in any one business enterprise, investing in a diverse portfolio, and parri-passu, syndicating or co-lending with other financing partners such as Business Development Bank of Canada, Community Futures, Women's Enterprise, Banks, Credit Unions, venture capital and private investors.

Bad debt impacts SIDIT's ability to be sustainable. To diminish the risk of a firm failing, sound management and financial systems are critical. Operational problems derail a company more often than a product or technology that does not work. To this end, SIDIT has also grant funded incubation and accelerator centers which provide on-going support to early stage technology and related companies.

Market Risk

Market risk is the fair value of future cash flows of a financial instrument that will fluctuate due to changes in market prices. Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. SIDIT incurs fair value risk on its investments held and does not hedge its fair value risk.

SIDITs investment objectives are as follows:

- **Capital preservation:** the need to preserve the purchasing power of the capital base, in perpetuity;
- **Capital growth:** the desire to increase the value of the organization's funds;
- **Income generation:** the need to cover annual cash flows, ongoing expenses and the disbursement targets;
- **Project funding:** the desire to fund specific cash flow commitments or projects in the future.

SIDIT manages its market risk through various means including the following:

- Limiting investment in any one company;
- Maintaining diversity in the portfolio;
- Investing into companies with a market capitalization greater than \$100 million; (Canadian) and \$1 Billion (US) at the time of purchase;
- Limiting holdings of fixed income by credit risk ratings and by issuer;

Refer to SIDIT's By-Law and Policy Manual at www.sidit-bc.ca/about-us/resources/ to see our investment policy in detail.

At the firm level, Fund Manager Phillips, Hager & North (PH&N) Chief Investment Officer is responsible for setting investment policies for every RBC Global Asset Management (GAM) and PH&N Fund. An investment mandate is established for every fund which places allowable limits on such factors as maximum individual position sizes, maximum sector exposures (both absolute and relative to the benchmark), exposure to small capitalization stocks and other illiquid investments, minimum credit quality for fixed income instruments, and other factors. The fund managers are responsible for ensuring their portfolios remain compliant with their investment mandates, and compliance is also monitored by individuals and systems outside the fund management team.

In addition to complying with the requirements of their investment mandates, the fund manager employs risk management processes specific to each asset class. PH&N's fixed income team, through the use of their proprietary bond management system called Bondlab, monitors each fixed income portfolio in real time for its exposure to movements in rates, shifts in the yield curve, movements in credit spreads, other factors. Bondlab also considers the correlations between movements in these factors, in addition to the direct exposures themselves. Within global equities, the portfolio managers use an Investment Grade rating system, under which they rate the quality of every stock under consideration for the portfolio based on such characteristics as balance sheet strength, profitability, and quality of management, and apply limits on the proportion of the portfolio that can be invested in lesser-quality companies. PH&N's Canadian equity fund managers evaluate companies on similar criteria, and also consider where a company's earnings, valuation and stock price fall in its likely range over the course of a market cycle to help estimate the downside risk for individual stocks.

Investment losses impact SIDIT's ability to be sustainable as well as its ability to fund on-going operations and meet funding targets. SIDIT historically, and to date, has the necessary funding and cash flows to meet its objectives.

Internal Capacity Risk

An experienced management and staff team allows SIDIT to achieve disbursement targets and maintain operating expenses at a low level relative to funding volume. SIDIT maintains a small management and staff group of 6.75 FTE. Training and succession plans are in place to address the limited depth in staffing and potential prolonged absence of any key player, including the CEO, in order that entity funding processes are not unduly interrupted. The small size of management and staff requires a broad and deep skill set at all levels to be able to conduct the operations of the entity business model. SIDIT is enhancing the infrastructure and ongoing staffing requirements necessary to manage and grow its loan and equity portfolio.

Information Systems/Technology Risk

A robust software system is required to report individual project and aggregate portfolio performance over time. This is invaluable in increasing the efficiency of SIDIT and enabling strong reporting, given its limited resources.

- In-house software systems are utilized for grant due diligence, Board approval, monitoring, disbursement and reporting. This enables SIDIT to manage the full lifecycle of each grant application, improves the approval processes through use of comparative scoring and compliance standards and provides the means to track milestone progress.
- Margill Loan Manager Software is used to manage SIDIT's loan and equity portfolio. Designed specifically for small lenders, Margill Loan Manager is a PC-based, simple-to-use, robust and inexpensive loan management solution. The program is capable of producing very complete, customized, financial and non-financial reporting.
- Simply Accounting Pro financial software helps SIDIT manage its cash flows by tracking revenues and expenses and simplifying the budgeting and forecasting process. Its ability to track cash flows and its audit trail capabilities further increase efficiencies and reporting capabilities.
- A full suite of loan and equity legal templates have been developed and refined. The forms increase consistency between applications and reduce implementation and customization costs for our borrowers and investee companies.

Disaster Recovery Risk

In the Fall of 2016, SIDIT underwent a review of its computer systems and switched providers to Nerds on Site, including a replacement of its server and updated its email and back up storage. In addition, SIDIT implemented stricter guidelines for what employees are able to install and download on their computers, as an extra security step in preventing malware and viruses.

SIDIT's contingency plan to protect against computerized or paper records loss, computer hacking, and the event of fire or earthquake includes the following:

- SIDIT installed QNAP back-up system, which has interchangeable drives that are rotated out on a monthly basis, the drives are then kept in a secure location. This back-up system covers the server (operating system included) in its entirety and all company, shared, and employee files, so in the event of a disaster, the images could be downloaded and have the system back up and running again.
- SIDIT's replacement server has hardware redundancies built into its storage drives.
- In addition to QNAP, SIDIT backs up its financial and client related files to the cloud via Shadow Craft. These files are stored in the cloud in Canada and do not cross international borders, so they are not subject to the Patriots Act.
- SIDIT's email system is run through Microsoft's Office 365, emails are accessible and backed up through secure log-in either through Outlook on computers, or via the internet. These emails have 'Litigation Hold', which means all emails are stored in a special Microsoft server that is compliant with IT standards so as to be admissible in court.
- All client files are scanned and stored electronically and paper copies are stored in fire resistant cabinets.
- All operational computers are monitored by Nerds on Site to detect any malware on a 24/7 basis. In addition, Nerds on Site also monitors the Server on a 24/7 basis.

Directors and Officers Liability and Omissions Risk

The Trust maintains a \$5 Million Policy for Directors and Officers Liabilities and Omissions Insurance, as well as adequate Property and \$2 Million General Liability Insurance.

Liquidity Risk

Liquidity risk is the risk that SIDIT will be unable to fund its obligations as they come due. SIDIT's management oversees SIDIT's liquidity risk to ensure that SIDIT has access to enough readily available funds to cover its financial obligations as they come due. SIDIT's business requires such capital for operating and funding of development initiatives, grants and education awards.

The assessment of SIDIT's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective trust specific market conditions and the related behavior of its borrowers and investees. SIDIT has the necessary cash and cash-flows to meet its current and long term objectives.

Strategic Plan Changes

SIDIT established its long-term goals, in consultation with the SIDIT Board. SIDIT has established processes and extensive knowledge of its stakeholders required to set goals that are significant to and inclusive of its stakeholders. SIDIT's strategic plans outline the next three fiscal years of strategic initiatives. The strategic plan can be viewed on SIDIT's website www.sidit-bc.ca.

Changes in Reporting

In early 2012, the Office of the Auditor General of BC carried out an audit under section 11(6) of the Auditor General Act, which empowers the Auditor General to audit an individual or organization concerning a grant received from the government, to ensure that any of the grant's terms and conditions have been fulfilled. The purpose of this audit was to determine whether SIDIT was complying with the requirements of its Act, and meeting public accountability reporting standards.

The Auditor General developed their audit criteria based on SIDIT's governing legislation that SIDIT is required to follow and on recognized good practices that exist, although are not legislated requirements:

- Include discussion in our public accountability reports about how we are complying with legislated requirements.
- Incorporate the BC Reporting Principles into our annual reports.
- Develop and report annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.

We believe that the recommendations presented by the Auditor General provide useful guidance on how to improve our public accountability reporting practices and create clarity for stakeholders. These recommendations were incorporated into our 2012 Annual Report and will be continuously improved.

Environmental Scan

As part of its strategic plan, SIDIT undertook to have an environmental scan conducted every three years. In 2016, the Board resolved that it would undertake to have a more robust report conducted every 5 years, such as the Socio-Economic Impact Assessment Report conducted in 2016 by Lochaven Management Consultants/ Urban Matters.

The Board determined that as the environmental reports previously conducted by SIDIT were pulled together from information that will always be accessible through public websites, that it could forego the cost of this additional report and opt for the more specific Economic Impact Report.

The Socio-Economic Report conducted in 2016 focused specifically on SIDIT and how SIDIT's programs impacted the communities of the Southern Interior.

The methodology used in the Socio-Economic report allowed Lochaven Management Consultants / Urban Matters to objectively answer the following questions:

1. What social and economic difference(s) or impacts has the Southern Interior Development Initiative Trust made to those enterprises, clients and communities to whom it seeks to serve;
2. How significant and far reaching are these impacts; and,
3. How consistent are they in terms of SIDIT's mandate, principles, objectives and plans.

Accordingly, the report was conducted by adding or modifying economic indicators as required and expanding to include relevant social indicators. The investigations focused on the acquisition of both qualitative and quantitative impact related information; and employed both primary and secondary research. By definition, the approach included a process of scoping, direct fiscal assessment, surveying of a stratified sample of clients/ stakeholders, and the careful inputting and imputing of indirect/induced impacts.

Results

The Researchers concluded that even though the ten years leading up to the report had been tumultuous, SIDIT continued to have a positive and significant social, economic and employment impact within the Southern Interior. SIDIT broadened its programming, in scope and reach and SIDIT has matured as an organization. SIDIT's funding programs have resulted in the creation of new enterprises and/or strengthening of others; the creation of new jobs and/or the preservation of others; the facilitation of important and innovative community initiatives; the promotion and support of new graduates and a more highly educated regional workforce, and increased regional growth and prosperity.

The Researchers went on to state that although there was not an initial baseline, the impacts were positive and substantive. These positive impacts serve to emphasize the relevance, credibility and value of SIDIT programming.

The Report can be reviewed in its entirety at <https://sidit-bc.ca/about-us/resources>.

Strategic Goals

SIDIT's objective is to maintain the Trust so that it is sustainable, increasing the value of the Trust over time and achieving the Trusts' desired ends within available means. The Board has established a core strategy, supported by five strategic goals and defined performance targets with metrics that track progress and measure each goal's achievement.

Core Strategy

- Identify and support community development projects and regionally based commercial ventures that match the objectives of the Trust and demonstrate sustainability.
- Maintain the Trust so that it is financially sustainable, providing continual support for economic initiatives for the Southern Interior and increase the social and economic impact of the Trust over time.
- Supporting each of SIDIT's five strategic goals are strategies, performance targets and metrics that track progress and measure goal achievement

Strategic Goals

Goal 1: Enhance the Southern Interior economy by promoting greater economic growth, resiliency and diversification.

Goal 2: Preserve existing jobs, stimulate new employment and address skill shortages in the Southern Interior region.

Goal 3: Attract new capital to the Southern Interior region to drive incremental economic development activities.

Goal 4: Increase the value of the investment pool, thereby increasing opportunities to support regionally strategic investments in the Southern Interior.

Goal 5: Create and sustain public awareness of and support for SIDIT's purpose, goals, achievements and successes with a focus on partnership development, collaboration and extending rural reach.

Performance Targets and Metrics

Performance targets and metrics for each strategic goal assist SIDIT and its stakeholders to measure and assess SIDIT's progress, impact and results. Metrics are selected on the following criteria:

Connection to our goals – our progress in achieving desired outcomes and through them, our mission, vision and mandate.

Longevity – track impact over time; identify trends and provide information for performance improvement.

Measurable – metrics for which we can collect relevant, accurate data in a timely and affordable manner in support of SIDIT's operational and strategic priorities.

Specific metrics focus on activities, behaviors, operational processes and outcomes critical to the delivery of an efficient, effective funding system and consistent with SIDIT's Vision, Mission and Guiding Principles.

Metrics are evaluated annually to ensure they have integrity and are meaningful measurements of performance achievement, outcomes and impact. This results in ongoing refinement of metrics and data collection methods.

Overall, our performance metrics track and measure our strategy execution and goal achievement.

GOAL 1 ENHANCE THE SOUTHERN INTERIOR ECONOMY BY PROMOTING GREATER ECONOMIC GROWTH, RESILIENCY AND DIVERSIFICATION.

Strategies

1. Positively impact each region in the Southern Interior through strategic investments in communities, effective partnerships and by focusing on primary target industries.

PERFORMANCE TARGETS AND METRICS:

- a) Focus on primary targeted industries measured as cumulative \$ invested per sector.
 - b) Subject to proponent demand, positively impact the economy by investing in each region measured as cumulative number and \$ invested per capita by sub-region.
 - c) Achieve a minimum 2 times leverage of SIDIT \$ funding, measured as the percentage of SIDIT dollars committed vs other investment and project financing approved and committed.
2. Invest in existing enterprises that are seeking to create diversification in their own business by introducing new products; targeting new markets; creating diversification through other means; ensuring successful business transition; or succession to the next generation.

PERFORMANCE TARGETS AND METRICS:

- a) Approve minimum annual investments of \$7 Million in fiscal 2017
 - b) Achieve cumulative investments of \$68 Million by 2020.
 - c) Invest in innovation and entrepreneurship and projects that assist individuals to create or expand businesses, develop innovative products, enhance services and utilize technologies.
- #### **PERFORMANCE TARGETS AND METRICS:**
- a) Co-invest in Early Stage Seed Funds aligned with SIDIT priorities and eligibility criteria.
 - b) Achieve cumulative investment of \$500,000 commencing fiscal 2017.
 - c) Achieve a minimum of 4 times leverage of SIDIT \$ invested.
 - d) Measure and report impact and outcomes based on investment partners' annual investee reports.

3. Accelerate client success by providing companies with business mentoring on a cost-shared basis:

PERFORMANCE TARGETS AND METRICS:

- a) Fiscal 2017- provide 20 companies with SIDIT mentoring support services on a cost-shared basis.

Measurement

The following reflects cumulative disbursed funding by region on a per capita basis.

Results

Regional impact will be evaluated as dollars per capita/per sub region and is provided for informational purposes only.

Grant Funding by Region and per Capita:

Regions	2017 Grants	Cumulative	Population	\$ per capita
Central Okanagan	\$75,000	\$915,478	194,882	\$4.70
Columbia Shuswap-TO	\$25,000	\$225,000	35,739	\$6.30
Fraser Valley	\$0	\$25,000	7,096	\$3.52
North Okanagan	\$3,200	\$348,022	84,354	\$4.13
Okanagan Similkameen	\$25,000	\$476,284	83,022	\$5.74
Thompson Nicola	\$150,000	\$1,149,666	132,663	\$8.67
			537,756	
Columbia Shuswap-K	\$25,000	\$175,000	15,001	\$11.67
Kootenay Boundary	\$99,011	\$906,726	31,447	\$28.83
Central Kootenay	\$50,000	\$611,088	59,517	\$10.27
East Kootenay	\$24,300	\$649,706	60,439	\$10.75
			166,404	
Leverage 9.38 to 1	\$476,511	\$5,481,970	704,160	

Loan Funding Mandates by Region and per Capita

Regions	2017	Cumulative	Population	\$ per capita
Central Okanagan	\$2,775,000	\$25,140,822	194,882	\$129.01
Columbia Shuswap-TO		\$735,934	35,739	\$20.59
Fraser Valley		\$500,000	7,096	\$70.46
North Okanagan	\$75,000	\$4,375,000	84,354	\$51.86
Okanagan Similkameen	\$190,000	\$4,385,674	83,022	\$52.83
Thompson Nicola	\$750,000	\$1,558,801	132,663	\$11.75
	\$3,790,000	\$36,696,231	537,756	\$68.24
Columbia Shuswap-K			15,001	\$0.00
Kootenay Boundary		\$3,672,964	31,447	\$116.80
Central Kootenay		\$300,000	59,517	\$5.04
East Kootenay	\$935,000	\$2,651,600	60,439	\$43.87
	\$935,000	\$6,624,564	166,404	\$39.81
Leverage 2.22 to 1	\$4,725,000	\$43,320,795	704,160	\$61.52

Education by Regions

	Total	Population	\$ per capita
Thompson Okanagan	\$4,022,750	537,756	\$7.48
Columbia Kootenay	\$1,665,500	166,404	\$10.01
	\$5,688,250	704,160	\$8.08

Total Funding Per Region and Per Capita

Regions	Total	Population	\$ per capita
Central Okanagan	\$27,553,298	194,882	\$141.38
Columbia Shuswap-TO	\$1,230,987	35,739	\$34.44
Fraser Valley	\$569,708	7,096	\$80.29
North Okanagan	\$5,331,489	84,354	\$63.20
Okanagan Similkameen	\$5,466,717	83,022	\$65.85
Thompson Nicola	\$3,720,733	132,663	\$28.05
	\$43,872,931	537,756	\$81.59
Columbia Shuswap-K	\$319,011	15,001	\$21.27
Kootenay Boundary	\$4,889,866	31,447	\$155.50
Central Kootenay	\$1,518,240	59,517	\$25.51
East Kootenay	\$3,890,966	60,439	\$64.38
	\$10,618,084	166,404	\$63.81
	\$54,491,015		

Discussion

From its original \$50 million government allocation, SIDIT has invested \$43 million into business ventures in the Southern Interior as well as funded \$11 million in nonrepayable grants and education awards. \$24 million in principal and interest has been repaid as at the end of fiscal 2017. It is anticipated that this level of funding will help communities respond to challenges and opportunities in the near term while preserving a significant portion of the funds to ensure that the Trust has resources available to respond to future challenges and opportunities as they evolve. At the October 2014 strategic planning session, the SIDIT Board of Directors determined to increase loan and equity investments and reduce market investments incrementally.

\$30 million in surplus funds are invested in liquid and market securities to provide for operating capital and create a reserve for future funding and investment opportunities. This level of funding assists communities in responding to challenges and opportunities in the near term, while preserving a significant portion of the funds to ensure that the Trust has resources available to respond to future challenges and opportunities as they evolve.

The primary objective for the Trust is to support economic development initiative opportunities based on project merit within the Southern Interior irrespective of geographic considerations. In line with the Trust's Act and its mandate, the Trust encourages submissions from throughout the Southern Interior.

Grant funding is proponent driven and while the Trust strives, to the best extent possible, that all regions of the Southern Interior have fair and equitable access to the Trust's funds, it does not have control over the results of distribution of funding.

The Trust determines business enterprise risk based on a careful study of the business plan, past performance of the business enterprise, if applicable, and management

capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be achieved.

Within the context of the SIDIT Act, the Trust balances the level of risk that is present, with the community economic benefits that are being created. However, SIDIT will always satisfy itself that the potential of the deal presented is sound and prudent in order to protect the future of the fund.

As part of our mandate, we provide funding for early stage ventures which are generally seen to be in a "prebankable" phase due to a lack of tangible security, history or sufficient cash flow. The development initiative investments are considered to be risky and accordingly demand higher rates of return than more established companies would be able to negotiate.

We have the option to convert a number of development initiative loans into equity of the business recipient. Should the recipient companies be successful, these conversion options may have a material fair value over and above the value of the associated loan. We consider there is no material value in any of the conversion options at present, given that the recipient companies are in early to growth stage of the business venture.

While the Trust completes due diligence procedures prior to any investment being funded, economic conditions have impacted the credit quality of many entities due to increased uncertainty in cash flows. We made the first development initiative investment in March 31, 2008 fiscal year. As the recipient companies are now further into the lifecycle of an early stage enterprise, it has become evident that certain investments are unlikely to be recovered.

A provision for losses is recorded when we no longer have reasonable assurance of timely collection of the full amount of principal and interest.

Accelerate Okanagan (AO)

Okanagan Valley – Q4 FYTD (for the 12 months ended March 31, 2017)

Partner Information	Company Information			Graduate Information	
Program Launch: 2011	ACTIVE COMPANIES	ACTIVE COMPANIES IN PROGRAM FOR 12+ MONTHS	CHURN RATE ⁴	AVERAGE MONTHS IN PROGRAM	RANGE OF MONTHS IN PROGRAM
BCIC Funding in FY 2016/17 ¹ : \$350,000	40	40%	43%	12	1 - 39
Total Current EIRs: 9	*Typically it takes companies a number of years to produce significant results				
Entrepreneurs Trained ² : 148	40 Active Companies by Technology Sector				
Average Client Capacity Achieved ³ : 85% 21 of 25 Seats Filled	Digital Media / Web / Mobile	19/111	17% of BCAN Total		
	Software (Enterprise Software / SaaS)	12/57	21% of BCAN Total		
	Cleantech	2/43	5% of BCAN Total		
	Life Sciences / Medical Devices	4/33	12% of BCAN Total		
	Other (e.g. Agrifoods)	2/22	9% of BCAN Total		
	Hardware	1/17	6% of BCAN Total		
	Industrial Technology / Heavy Industry				
	Services				
	Telecom / Wireless				

Results from 35 of 40 Active Companies⁵ (13% of BCAN)

Jobs Created

48/431 **16 in Q4**
 11% of BCAN Total
 51% of companies created Jobs
 1.4 Jobs created per company

Revenues Generated

\$2M/\$42.4M **\$681K in Q4**
 5% of BCAN Total
 66% of companies generated Revenue
 \$58K in Revenue generated per company

Investment Attracted⁶

\$3.5M/\$43.5M **\$1.2M in Q4**
 8% of BCAN Total
 77% of companies attracted Investment

Government Funding Attracted

\$190K/\$11.2M **\$20K in Q4**
 2% of BCAN Total
 20% of companies attracted Government Funding

Top Success Stories

- RevUp client Data Nerds graduated from the Boulder Techstars program.
- Two Accelerate Okanagan companies expanded internationally (AquaAir 247 from VAP and Data Nerds from RevUP) <http://bit.ly/2qKL9PS>.
- \$3M Collaboration between Two Hat Security (Community Sift – RevUP) and Mitacs <http://bit.ly/2pQQ4er>.

¹BCIC contributed an additional \$50,000 toward RevUP.

²Total entrepreneurs trained in the program to date by EIRs.

³Average Client Capacity Achieved is based on capacity averaged over 12 points in FY 2016/17: the 15th of each month. Seats filled are rounded.

⁴Churn rate calculated for FY 2016/17.

⁵BCIC does not include results from companies that exited in the first month or joined in the last month of the quarter.

⁶Investment refers to new venture capital, angel, strategic, friends & family and founder investments attracted.

Kamloops Innovation (KI)

Central Interior – Q4 FYTD (for the 12 months ended March 31, 2017)

Partner Information	Company Information			Graduate Information	
Program Launch: 2012	ACTIVE COMPANIES	ACTIVE COMPANIES IN PROGRAM FOR 12+ MONTHS	CHURN RATE ³	AVERAGE MONTHS IN PROGRAM	RANGE OF MONTHS IN PROGRAM
BCIC Funding in FY 2016/17: \$150,000	13	69%	31%	14.7	2 - 38

Total Current EIRs:

1

Entrepreneurs Trained¹:

56

Average Client Capacity Achieved²:

74% **9 of 12 Seats Filled**

*Typically it takes companies a number of years to produce significant results

13 Active Companies by Technology Sector

Digital Media / Web / Mobile	5/111	5% of BCAN Total
Software (Enterprise Software / SaaS)	3/57	5% of BCAN Total
Cleantech		
Life Sciences / Medical Devices	1/33	3% of BCAN Total
Other (e.g. Agrifoods)		
Hardware		
Industrial Technology / Heavy Industry		
Services	1/9	11% of BCAN Total
Telecom / Wireless	3/7	43% of BCAN Total

Results from 11 of 13 Active Companies⁴ (4% of BCAN)

Jobs Created

41/431 **0 in Q4**

10% of BCAN Total

27% of companies created Jobs

3.7 Jobs created per company

Revenues Generated

\$6.2M/\$42.4M **\$1.8M in Q4**

15% of BCAN Total

64% of companies generated Revenue

\$562K in Revenue generated per company

Investment Attracted⁵

\$2.7M/\$43.5M **\$533K in Q4**

6% of BCAN Total

73% of companies attracted Investment

Government Funding Attracted

\$271K/\$11.2M **\$0 in Q4**

2% of BCAN Total

45% of companies attracted Government Funding

Top Success Stories

- Lightship Works received a BCIP Grant of \$500K and was listed as an Information and Communications Technology "Emerging Rocket" company, expected to see significant growth or market reach in 2017.
- Databox signed two new business deals as a direct result of presenting and participating in the Prince George and Castlegar Regional Innovation Opportunities (RIO) events.
- Kamloops Innovation was chosen to host the 2017 Startup Canada Awards on September 15, 2017. This will be the first time the awards will be held outside of Vancouver.

¹Total entrepreneurs trained in the program to date by EIRs.

²Average Client Capacity Achieved is based on capacity averaged over 12 points in FY 2016/17: the 15th of each month. Seats filled are rounded.

³Churn rate calculated for FY 2016/17.

⁴BCIC does not include results from companies that exited in the first month or joined in the last month of the quarter.

⁵Investment refers to new venture capital, angel, strategic, friends & family and founder investments attracted.

Kootenay Association for Science and Technology (KAST)

West Kootenays – Q4 FYTD (for the 12 months ended March 31, 2017)

Partner Information	Company Information			Graduate Information	
Program Launch: 2013	ACTIVE COMPANIES	ACTIVE COMPANIES IN PROGRAM FOR 12+ MONTHS	CHURN RATE ³	AVERAGE MONTHS IN PROGRAM	RANGE OF MONTHS IN PROGRAM
BCIC Funding in FY 2016/17: \$170,000	14	57%	50%	14.7	3 - 38
Total Current EIRs: 5	*Typically it takes companies a number of years to produce significant results				
Entrepreneurs Trained ¹ : 41	14 Active Companies by Technology Sector				
Average Client Capacity Achieved ² : 100% 8 of 8 Seats Filled	Digital Media / Web / Mobile	4/111	4% of BCAN Total		
	Software (Enterprise Software / SaaS)	2/57	4% of BCAN Total		
	Cleantech	3/43	7% of BCAN Total		
	Life Sciences / Medical Devices	2/33	6% of BCAN Total		
	Other (e.g. Agrifoods)				
	Hardware				
	Industrial Technology / Heavy Industry	3/15	20% of BCAN Total		
	Services				
	Telecom / Wireless				

Results from 13 of 14 Active Companies⁴ (4% of BCAN)

Jobs Created

1/431 **0 in Q4**
 <1% of BCAN Total
 8% of companies created Jobs

Revenues Generated

\$4.5M/\$42.4M **\$227K in Q4**
 11% of BCAN Total
 46% of companies generated Revenue
 \$346K in Revenue generated per company

Investment Attracted⁵

\$150K/\$43.5M **\$0 in Q4**
 <1% of BCAN Total
 8% of companies attracted Investment

Government Funding Attracted

\$99.3K/\$11.2M **\$12.7K in Q4**
 1% of BCAN Total
 31% of companies attracted Government Funding

Top Success Stories

- Cronometer, a new VAP client, is being featured in a publication outlining the benefits of tracking individual eating records, health records and overall fitness. Since enrolling in the VAP, this client has consistently seen sales of the app triple each month.

¹Total entrepreneurs trained in the program to date by EIRs.

²Average Client Capacity Achieved is based on capacity averaged over 12 points in FY 2016/17: the 15th of each month. Seats filled are rounded.

³Churn rate calculated for FY 2016/17.

⁴BCIC does not include results from companies that exited in the first month or joined in the last month of the quarter.

⁵Investment refers to new venture capital, angel, strategic, friends & family and founder investments attracted.

Discussion

In today's economic climate, it is increasingly important for British Columbia to be competitively positioned in the global knowledge economy. A Crown Agency of the BC Government, the BC Innovation Council (BCIC) is BC's lead agency for promoting and accelerating technology commercialization. BCIC provides funding to and collaborates with organizations across the province to create and deliver programs and support key industry initiatives that help BCIC meet its mission to *strengthen British Columbia's economy by accelerating the growth of BC ventures through the support of entrepreneurs and technology companies.*

The **Venture Acceleration Program** (www.bcacceleration.ca) drives economic development by training entrepreneurs to start and grow a company, thereby driving job creation in British Columbia. It accelerates the process of defining a proven business model and increases the likelihood of success through:

- A structured approach to growing a company, the Venture Growth Model, that integrates concepts and advice from global thought leaders such as Geoffrey Moore, Steve Blank and Alex Osterwalder.
- Ongoing one-on-one coaching from experienced Executives in Residence (EiRs) and access to their networks. This may include introductions to investment sources, strategic partners, and early adopter customers.
- Valuable networking opportunities.

Through the delivery of an intense skills training experience akin to an apprenticeship in technology entrepreneurship and commercialization, the goal of the program is to develop entrepreneurial talent, drive economic development and job creation in the province of BC.

BCIC acknowledges that Venture Acceleration Program companies often receive support, funding and resources from a number of sources in BC's technology ecosystem, all of which contribute to their success. These resources include the National Research Council of Canada's Industrial Research Assistance Program (NRC-IRAP), the Southern Interior Development Initiative Trust, the Northern Development Initiative Trust and Western Economic Diversification Canada.

GOAL 2 PRESERVE EXISTING JOBS AND STIMULATE NEW EMPLOYMENT IN THE SOUTHERN INTERIOR REGION.

Strategies

1. Invest in new and existing commercial enterprises that will use the infusion of capital to preserve jobs and/or create new jobs through:

PERFORMANCE TARGETS AND METRICS:

- a) Create or preserve 3,000 jobs by 2020 at an annual rate of 250 jobs.
 - b) Measure annual and cumulative impact on job creation and retention as reported by existing and new SIDIT clients in annual reviews and by grant funds recipients in annual impact reports to SIDIT.
 - c) Report impact by industry sector.
2. Invest a percentage of the income of the Fund into educational programs and internships focused on trades, technology and academic programs that address skill shortages and enhance economic growth in the region.

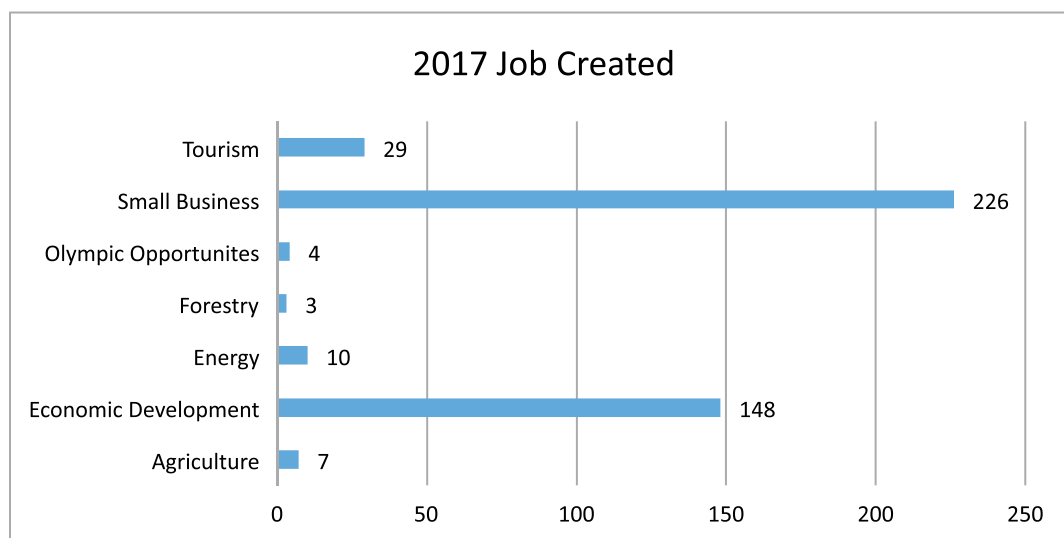
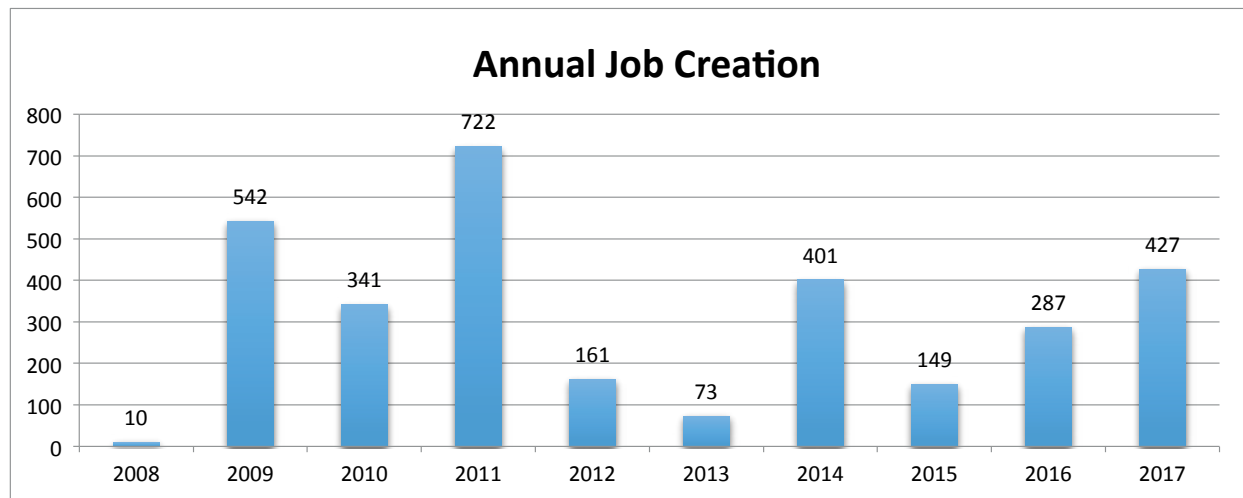
PERFORMANCE TARGETS AND METRICS:

- a) Achieve cumulative investments of \$6.2 million by 2020.
- b) Approve annual investment of \$250,000 in programs and internships, allocated among SIDIT's partners on the basis of number of students supported, alignment with SIDIT priority industries, impacts on employment and skill shortages.
- c) Ensure SIDIT internship contributions are matched by recipient organizations.
- d) Measure impact through recipient annual performance reporting of program outcomes including: benefits to SIDIT priority target industries and employment; alignment with regional skill shortages; number of students supported and recipient success stories.
- e) Track student graduation rates.

Measurement

Jobs reported are based on proponent estimates on direct employment to be created or preserved. Wages expenses are verified by comparison to financial statements or proponent reporting. Financial statements provided by business proponents are prepared, at a minimum, on a Review Engagement Basis.

Results



Number of Students Receiving SIDIT Grants

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
College of the Rockies	142	183	187	107	106	100	123	84	57	1,089
Selkirk College	284	362	450	74	58	44	38	36	64	1,410
Thompson Rivers University	493	558	590	58	65	58	62	81	50	2,015
Okanagan College	582	593	468	102	50	50	50	75	50	2,020
UBCO	0	0	0	29	50	50	65	65	40	299
UBCO–Medical	0	0	0	10	10	10	5	5	5	45
BCIC	0	6	9	11	10	10	5	1	0	52
	1,501	1,702	1,704	391	349	322	348	347	266	6,930

Discussion

JOB CREATION

As previously noted in this report, the Trust conducted a Socio-Economic Report in 2016, which focused specifically on the Trust and how the Trust's programs impacted the communities of the Southern Interior. The Researchers concluded that even though the ten years leading up to the report had been tumultuous, the Trust continued to have a positive and significant social, economic and employment impact within the Southern Interior. The researchers went on to state although there was not an initial baseline, the impacts were positive and substantive. These positive impacts serve to emphasize the relevance, credibility and value of SIDIT programming.

The Report can be reviewed in its entirety on our website at: <https://sidity-bc.ca/about-us/resources>

LABOUR FORECAST

A labour market outlook looks at trends that are anticipated in the future labour market. According to BC's 2025 Labour Market Outlook, 14 percent of workers in BC are in the Southern Interior, and they expect a total of 134,700 job openings in the Southern Interior Region by 2025. Three in ten openings are due to economic growth and the rest are to replace retired workers. Employment demand in the region is forecast to increase each year by 1.1 percent on average, the same rate as the provincial average.

BC's 2025 Labour Market Outlook can be viewed at:

<https://www.workbc.ca/getmedia/00de3b15-0551-4f70-9e6b-23ffb6c9cb86/LabourMarketOutlook.aspx>

EDUCATIONAL SUPPORT

The Trust engages with six post-secondary institutions operating in the Southern Interior as delivery partners for the Trust's investment in education. The participating institutions: College of the Rockies; Selkirk College; Okanagan College; University of British Columbia Okanagan; Thompson Rivers University; and Nicola Valley Institute of Technology, deliver programs and manage awards for trades, technology and applied sciences. Awards are based on financial need and range in size from \$500 to \$2,500 per student recipient.

GOAL 3 ATTRACT NEW CAPITAL TO THE SOUTHERN INTERIOR REGION TO DRIVE INCREMENTAL ECONOMIC DEVELOPMENT ACTIVITIES.

Strategies

1. Attract capital into the region and contribute to the economic sustainability of the community by providing grants supporting community economic initiatives.

PERFORMANCE TARGETS AND METRICS:

- a) Achieve cumulative investments of \$7 Million in support of community economic initiatives by 2020.
 - b) Advance a minimum of \$500,000 annually in grants to community economic initiatives with a priority on projects that enhance access to technology and economic opportunities in smaller and rural communities.
 - c) Measure impact through annual recipient and partner reporting on immediate and ongoing project outcomes.
2. Through leverage and partnerships, achieve a multiplier effect through SIDIT loans, equity investments and grants.

PERFORMANCE TARGETS AND METRICS:

- a) Achieve minimum 4:1 leverage of SIDIT's grant funding defined as an investment of \$4 from sources unrelated to SIDIT for every \$1 invested by SIDIT as verified by third party review of project funding.
- b) Achieve minimum 2:1 leverage of SIDIT's loan and equity investments defined as investment of \$2 from other sources (i.e. private equity/institutional investors/conventional and development lenders) for every \$ invested by SIDIT.
- c) At proponent application and annual review, track project financing from other sources. Report annual and cumulative results.
- d) Leverage partnerships through collaboration on best practices and joint business and community economic development initiatives.
- e) Track and report annually on partnership activities and impact.
- f) Track and report annually on data collected on grants.

Results

\$451,511 has been funded in support of community economic initiatives in 2017 and cumulatively \$5.5 million has been funded as at fiscal year-end 2017. This represents 100% of our cumulative target. Our leverage to date is 9:38 to 1. Our investments of \$48 million into loans and equity investments has attracted an additional \$155 million into the region representing leverage of 2:22 for every \$1 invested by SIDIT.

Funding partners for community economic initiatives include the following:

- Provincial Government
 - Social Planning and Research Council
 - BC 150 Celebrations Fund
 - BC Innovation Council
 - BC Lottery Foundation
 - Jobs Opportunities Program
 - Ministry of Aboriginal Relations and Reconciliation
 - Ministry of Forests, Lands and Natural Resource Operations
 - Ministry of Jobs, Tourism & Skills Training
 - Ministry of Community, Sports and Cultural Development
 - Ministry of Transportation & Infrastructure
 - Southern Interior Beetle Action Coalition
 - Rural Economic Diversification
 - Rural Dividend Fund
- Federal Government
 - Business Development Bank of Canada
 - Farm Credit Corporation
 - Community Futures Development Corporations
 - Women's Enterprise
 - Heritage Legacy Fund
 - P3 Canada
 - Service Canada – Youth Employment Strategy

- Western Economic Diversification
- Chambers of Commerce
- Credit Unions and Credit Union Foundations
- First Nations Groups
- Colleges, Universities, and other Education Facilities
- Union of BC Municipal Governments
- Not-for-Profit Organizations, Foundations, and Cooperatives
- Trusts

Funding partners for business loans and equity investment initiatives include the following:

- Atrium Ventures VCC Inc.
- Business Development Bank of Canada;
- Farm Credit Corporation
- Community Futures Development Corporations;
- Women's Enterprise;
- Banks;
- Credit Unions;
- Venture Capital Corporations;
- Proponent equity;
- Angel investors;
- National Research Council Canada – Industrial Research Assistance Program;
- Scientific Research and Experimental Development – Federal Tax Incentive Program.

Discussion

We define an economically sustainable community as a place where:

- There is a high quality of living that attracts people to the community and keeps them there;
- There is ample economic diversity and opportunity.

To help strengthen and build sustainable communities, we invest in initiatives that:

- Have regional economic impact;
- Support the creation, preservation or enhancement of employment;

- Support economic diversification and sustainability within Southern Interior communities;
- Tap into and take advantage of the expertise of people who live in the Southern Interior;
- Build on the region's tourism sector;
- Capitalize on the innovation and entrepreneurship of Southern Interior communities and businesses;
- Build on the industrial strength of the Southern Interior.

Grant Program

The Grant Program provides non-repayable funding for municipalities, regional districts, First Nations, registered non-profit societies, institutions, and industry associations to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

Projects that may be ineligible under the Trust's guidelines, will be considered if they are from communities with a population of under 25,000, but projects still need to demonstrate measurable economic impact. In addition, multi-year funding may be considered for initiatives or activities that take longer than one year to fully develop, or to achieve or document results that are meaningful or build sustainability.

All projects must be consistent with the Act, vision and mission of the Trust and preference is given to initiatives with regional benefits. Benefits are measured by increased tax base, new job creation, incremental revenue generation and economic diversification.

Thompson Okanagan Grants

- Accelerate Okanagan (AO) / BCIC
- Arts Council of the North Okanagan
- Canadian Home Builders Association
- Central Okanagan Community Futures
- Central Okanagan Foundation
- Community Dental Access Centre Society
- Community Futures of North Okanagan
- Community Futures Okanagan Similkameen
- Gold Country Communities Society – 2 grants
- Grindrod Recreation Association
- Hope Business and Development Society
- Kamloops Farm Fresh Processing Initiative
- Kamloops Innovation Centre (KIC) / BCIC
- Kelowna Habitat for Humanity Society
- Kelowna Innovation Society
- Kettle Valley Railway Society
- Lake Country Food Assistance Society
- Loose Bay Campground Society
- Lower North Thompson Community Forest Society
- Myra Canyon Trestle Restoration Society
- Nicola Valley Community Theatre Society
- NK'Mip Desert Heritage Society
- North Shuswap Health Centre Society
- North Thompson Fall Fair & Rodeo Association – 2 grants
- O'Keefe Ranch & Interior Heritage Society
- Okanagan Car Share Co-Op
- Okanagan Research & Innovation Centre – 2 grants
- Okanagan Similkameen Film Commission Society
- Penticton Centre for Exceptional Learning Society
- Princeton, Town of – 2 grants
- Regional District of North Okanagan – 2 grants
- Regional District of Okanagan Similkameen
- Revelstoke Nordic Ski Club
- S.S. Sicamous Marine Heritage Society
- Salmon Arm Folk Music Society
- Salmon Arm Museum and Heritage Association
- Shuswap Hut & Trail Alliance Society
- Sounds of Light Multicultural Society
- Sun Peaks Education Society
- Sun Peaks Health Association
- Sun Peaks Mountain Resort Municipality
- Thompson Nicola Regional District – 2 grants
- Thompson Okanagan Tourism Association
- Thompson Rivers University – 2 grants
- University of British Columbia Okanagan
- Venture Kamloops Business Development Society
- Yellowhead Community Services Society

Columbia Kootenay Grants

- BDC -Small Business Productivity Project
- Black Jack Cross Country Ski Club Society – 2 grants
- British Columbia Community Forest Association
- Castlegar, City of
- CFDC of Greater Trail
- Christina Lake Chamber of Commerce
- Cranbrook & District Community Foundation
- Creston & District Community Resource Centre Society
- Fernie Chamber of Commerce
- Fly YXC Alliance Society – 2 grants
- Friends of Fort Steele Society
- Golden Cycling Club
- Golden Nordic Ski Club Society – 2 grants
- Grand Forks and Boundary Regional Agricultural Society
- Grand Forks, City of
- Harrop-Procter Community Co-op
- Kaslo, Village of
- Kimberley, City of – 2 grants
- Kootenay Aboriginal Business Advocates Society
- Kootenay Association for Science (KAST) / BCIC
- Kootenay Employment Services Society – 2 grants
- Kootenay Region Association for Community Living – 4 grants
- Kootenay Rockies Innovation Council (KRIC) / BCIC
- Little Lakers Learning Centre Society
- Nakusp Centennial Golf Club
- Nakusp, Village of
- Nelson Civic Theatre Society
- Nelson, City of
- Phoenix Foundation of the Boundary Communities
- Red Mountain Academies Association
- Rossland, City of
- Selkirk College
- Trail, City of – 2 grants
- Village of Canal Flats – 2 grants
- West Kootenay Herb Growers Cooperative
- Windermere District Farmers' Institute and Livestock Association

GOAL 4 INCREASE THE VALUE OF THE INVESTMENT POOL, THEREBY INCREASING OPPORTUNITIES TO SUPPORT REGIONALLY STRATEGIC INVESTMENTS IN THE SOUTHERN INTERIOR.

Strategies

1. Prudently manage SIDIT's credit investment risk by establishing and following clear guidelines for assessing lending and investment opportunities and by setting maximum limits of funding at various stages of development and categories of risk. Provide ongoing business mentoring and monitoring to investee companies to enhance their performance and success.

PERFORMANCE TARGETS AND METRICS:

- a) Balance investment of the fund pool in companies at various stages of development by limiting exposure to the following percentages: 5% at seed stage, 15% early stage, 50% growth stage, 30% mature stage.
 - b) Limit loan size by stage of development to: \$200,000 seed stage, \$500,000 early stage, \$1,000,000 growth, expansion or mature stage.
 - c) Monitor the fund pool risk for balanced investment in specific categories of risk based on loan purpose, proponent's industry sector and operational performance.
 - d) Proactively manage portfolio risk by downgrading risk at the time of material adverse changes, and by appropriate provision for losses.
2. Achieve a return on market investment portfolio (ROI) at or above industry benchmarks. Prudently manage SIDIT's market investment risk by establishing and following investment policy guidelines that set out investment risk tolerance and portfolio structure. Increase the value of the trust over time.

PERFORMANCE TARGETS AND METRICS:

- a) Engage high-quality investment management professionals to manage the market investment portfolio and achieve target rates of return on investment, established by SIDIT's Board of Directors and specified in SIDIT's investment policy and bylaws.
- b) Annually establish target return on investment.
- c) Report and manage investments on the basis of investment type and risk, benchmarked against industry performance for each category of investment as provided by the professional investment manager.
- d) Report on actual net return achieved vs target ROI and vs industry benchmark performance for each category of investment, as well as the overall portfolio.

Loans

Performance Targets

Increase the value of the Trust over time.

PERFORMANCE METRICS:

- Balanced Portfolio Risk Mix:
- Achieve and sustain a balanced risk mix in the loan and investment portfolio, based on investee's stage of business development, loan/investment purpose, life cycle and operational performance.
- Prudent Portfolio Management:
 - » Pricing loans and equity investments appropriately based on risk, with higher returns priced into higher risk transactions.
 - » Proactively manage and report on portfolio risk, including downgrading of risk at the time of material adverse changes, and provision for losses.
 - » Quarterly and annually report on lending and equity investment portfolio returns on investment (ROI), itemized by category of risk and with returns calculated to include loans and equity investments written off and provisions for losses.
 - » Include updated exit strategies in reports on loan and equity investments.

The Loan/Investment Business stages are defined as:

Seed Capital Stage: Companies at the start-up stage have an idea that is feasible and a credible business model for delivering their product, service or technology to an attractive target market, although may not yet have begun to generate revenues. SIDIT can provide financing to help the business develop a viable product from their technology, build prototypes for testing and develop marketing and sales plans for product launch.

Early Stage: Companies at the early stage have a corporate structure in place and have successfully market tested their products or services. SIDIT can provide financing to help these ventures begin commercial production and marketing.

Growth/Expansion Stages: Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and positive trending profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, and facilitate a change in control or to execute a turnaround strategy.

Later/Mature Stages: We provide financing to later stage / mature companies to help grow existing operations, improve performance or protect employment through an injection of capital and appropriate management support.

TARGET INVESTMENT FUND ALLOCATION AND LEVERAGE

Stage of Business	Maximum \$ Invested	Target Leverage SIDIT/Other	Target Fund Allocation*
Seed Capital	\$200,000	1:1	5%
Early-stage Capital	\$500,000	1:1	15%
Growth / Expansion Capital	\$1,000,000	2:1	50%
Later / Mature Capital	\$1,000,000	4:1	30%

*value is based on current balances and monitored on at least an annual basis

CURRENT FUND ALLOCATION

Stage of Business	Target Fund Allocation	Actual	Actual Allocation
Start Up Phase	5%	\$1,931,862.51	6%
Early Stage	15%	\$7,696,614.16	22%
Growth / Expansion Stages	50%	\$15,506,738.84	45%
Later / Mature Stages	30%	\$8,992,601.52	26%
		\$34,127,817.03	100%

OPERATING RESULTS

	2017	2016	Change 2016 to 2017	2015	Change 2015 to 2016
Revenue from development initiatives and other	2,491	2,016	23.56% ↑	2,352	(14.29)% ↓
Provision for development initiative losses	2,613	1,206	116.67% ↑	4,339	(72.21)% ↓
Operating expenses before amortization, interest & taxes	1,308	1,120	16.79% ↑	838	33.65% ↑
Operating expenses % of revenue	52.51%	55.56%	(5.49)% ↓	35.63%	55.94% ↑
Net earnings	46	166	(72.29)% ↓	897	(81.49)% ↓
Financial analysis					
Return on development initiatives	(0.77)%	4.14%	(118.60)% ↓	(12.35)%	133.52% ↑
Development initiatives	20,446	20,580	(0.65)% ↓	18,439	11.61% ↑
Return on investments	8.13%	4.69%	73.35% ↑	16.30%	(71.23)% ↓

Discussion

SIDIT's loan and equity portfolio is dynamic and can fluctuate significantly with new debt and debt re payment. Changes in economic growth creates opportunities, as well as challenges, for SIDIT, however the potential to expand core lending activities and opportunities arise by serving new types of customers.

Projects supported by SIDIT have a minimum of matching funds invested by either the project proponent or other parties. When security is provided in asset based lending scenarios, leverage ratios used by SIDIT will reflect standard bank loan to value criteria. Exceptions to this policy may be approved when the lending decision provides protection of a SIDIT investment.

The structure of SIDIT's equity investments is consistent with best business practices in equity investment procedures. The structure of SIDIT's loans is consistent with traditional lending criteria. In general terms, amortization periods do not exceed the life expectancy of the assets being secured and the loan term will typically be five years or less.

The purpose of all loans or investments funded by SIDIT complies with the SIDIT Act. Fees are market-based and rates appropriately represent the inherent risk of each business circumstance. It is envisioned that the loans made by SIDIT will eventually become bankable, at which time the enterprise may retire the SIDIT position in favour of a traditional lender allowing SIDIT's funds to be re-invested in other promising enterprises.

Typical equity capital investment will occur after the seed funding round as a participant in the growth funding round in the interest of generating a return through an eventual realization event or option to redeem capital. Equity capital is attractive for early and growth stage companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure traditional financing.

In exchange for the high risk that SIDIT assumes by investing in smaller and less mature companies, SIDIT incorporates terms and conditions, positive and negative covenants, milestone targets, performance measures, and monitoring criteria in equity investment agreements that are intended to control company decisions and actions, in addition to holding a portion of the company's ownership (and consequently value). SIDIT's role in the ongoing operation of the enterprises that it invests is not passive. Generally, SIDIT has the right to: appoint monitors, appoint candidates for seats on the Boards of the enterprises that SIDIT invests in, and hold observer roles.

Results

SIDIT has committed \$48 million and advanced \$43 million into business ventures. \$24 million in principal and interest has been repaid to date. Our committed investment of \$48 million in loan and equity investments has attracted an additional \$111 million (Project cost minus SIDIT Advanced) into the region representing a leverage of \$2.22 for every \$1 invested by SIDIT.

Trust assets, originally \$50 million, are currently \$51 million as at March 31, 2017 after disbursement of \$54 million into economic development initiatives in the Southern Interior. In 2006, the Government of British Columbia enacted legislation launching SIDIT with a \$50 million, one time allocation. Eleven years later with \$54 million of projects funded and disbursed, SIDIT is proud to have sustained its initial funding allocation. This is indeed a good news story for SIDIT and the Provincial Government for making this solid business investment on behalf of all British Columbians.

Thompson Okanagan Loans

- AAA Internet Publishing Inc. dba WTFast Inc.
- Allen Brands Inc. dba Big Surf Beer
- Always On UPS Systems Inc.
- Assured Software Limited
- Athena Farm Holdings Ltd.
- Atrium Ventures Inc.
- Awesense Wireless Inc.
- Bensay Innovative Inc.
- Britewood Industries Ltd.
- Catalyst Healthcare Ltd.
- Clear Water Springs Ranch
- Complete Home Energy Ltd.
- CS Manufacturing Inc.
- Delta C Technologies Inc.
- Diacarbon Energy Inc.
- FreshTech Systems Canada Inc.
- GC Green Carbon Inc.
- Great Bear Enterprises Ltd.
- Greenstep Solutions Inc.
- Heimann & Sons Masonry Ltd.
- Helios Global Technologies Ltd.
- Immersive Ventures Inc.
- International Road Technologies Ltd.
- Invaron Pharmaceuticals Inc.
- Jupiter Avionics Corporation
- Just Be Friends Kids Inc. (MAZU)
- Kelowna Visual and Performing Arts Centre Society
- Kettle Valley Moulding & Millwork Inc.
- Lemonade GameLabs Inc.
- Mario's Towing Inc.
- Mathtoons Media Inc.
- New Era Nutrition Inc.
- Nor Val Rentals Ltd.
- Okanagan Hockey Group Inc.
- Okanagan Label and Print Ltd.
- Pareto Systems Inc.
- Pre Labs Inc.
- Pro Smart Developments Inc.
- Pryme Group Imagery Inc.
- QHR Technologies Inc.
- Regal Ridge Development
- Reliant Web Hosting Inc.
- Rfind Systems Inc.
- Rhinokore Composites Ltd.
- Ruttan Enterprises Ltd.
- Sedo International Foods
- Signalink Technologies Inc.
- Sky Surfer Technologies Inc.
- Soil Mate Networks Inc.
- SST Wireless Inc.
- The Dubh Glas Distillery Ltd.
- Thermo Matrix Industries Ltd.
- Thompson River Veneer Products
- Tim C. Van Horlick Industry Inc.
- Two Hat Security Research Corp.
- Upward Solutions Inc.
- Vericorder Technologies Inc.
- Vineyard Networks Inc.
- Visland Media Inc.
- Volinspire Community Contribution Company Inc.
- Waveteq Communications Inc.
- Wildrides.ca Incorporated

Columbia Kootenay Loans

- AC Global Systems Ltd.
- Boundary Sawmill Inc.
- Cherry Creek Holding Ltd.
- Cranbrook Society for Community Living
- Golden Timber Frames Limited
- Jhaj & Stewart Brothers Nursery Ltd.
- Mrs. Palmers Pantry Inc.
- Palmer Bar Holdings Inc.
- Red Mountain Resorts
- Ron Donaldson Relocation Services
- Selkirk Security Services Inc.
- Timely Networks Inc.
- Valhalla Technologies Inc.

Investment Portfolio

The return in fiscal 2017 for the PH&N portfolio was 8.1% versus a composite benchmark of 10.6%. The overall return since inception was 6.9% as compared to a composite benchmark of 6.0% and to the Canadian Consumer Price Index of 1.6%. The portfolio, originally \$25 million at inception, is currently valued at \$29 million after reallocation of \$3.2 million to SIDIT's operating fund for investment into its loan and equity portfolio and grants program.

PERFORMANCE METRICS:

- Annually establish target return on market investment.
- Report and manage market investments on the basis of investment type and risk, benchmarked against industry performance for each category of investment as provided by the professional investment manager.
- Report on actual net return achieved vs target ROI and vs industry benchmark performance for each category of market investment, as well as the overall portfolio.

TARGET ASSET ALLOCATION AND RANGES

Asset Class	Minimum*	Target*	Maximum*
Canadian equities	12.5%	20%	27.5%
Foreign equities	22.5%	30%	37.5%
Total equities	35%	50%	65%
Universe Bonds	7%	17%	27%
Mortgages	13%	23%	30%
High Yield Bonds	0%	5%	10%
Total Bonds	30%	45%	60%
Cash & short-term	2%	5%	8%

*Percentage of portfolio at market value.

As of March 31, 2017		% of Total Portfolio	Current Benchmark %
Market Value	\$29,283,422		
Asset Mix (% of total market value)	Cash	5.0	5.0
	Mortgages	22.6	23.0
	Universe Bonds	16.1	17.0
	High Yield Bonds	4.5	5.0
	Canadian Equities	20.6	20.0
	Global Equities	31.2	30.0

INVESTMENT RETURNS

	Year Ended Mar/2017 %	Year Ended Mar/2016 %	Year Ended Mar/2015 %	Year Ended Mar/2014 %	Since Inception* (annualized) %
Southern Interior Development Initiative Trust	8.1	4.7	16.3	12.0	6.9
<i>Composite Benchmark**</i>	<u>10.6</u>	<u>-1.8</u>	<u>11.4</u>	<u>13.8</u>	<u>6.0</u>
<i>Difference</i>	-2.5	+6.5	+4.9	-1.8	+0.9
Canadian Consumer Price Index	1.6	1.3	1.2	1.5	1.6
Canadian Equities	12.3	3.8	16.5	16.6	6.1
S&P/TSX Capped Composite Index	18.6	-6.6	6.9	16.0	4.8
Global Equities	11.4	8.8	28.1	19.9	8.4
MSCI World Net Index	18.3	-0.7	22.1	30.2	7.7
Fixed Income	4.3	1.7	8.2	3.1	5.6
Fixed Income Benchmark	1.7	0.9	8.3	1.2	4.7
Money Market	1.0	0.8	1.2	1.2	1.3
FTSE TMX Canada 30 Day TBill Index	0.5	0.5	0.9	1.0	0.9

SIDIT's investment portfolio is managed by Philips, Hagar and North Investment Management (PH&N IM). Founded in 1964, PH&N IM has grown to become one of Canada's leading investment management firms with \$96.5 billion in assets under management. In 2008, PH&N IM was acquired by Royal Bank of Canada, providing access to significant additional resources to evolve their services and strategies in tandem with their clients' increasingly sophisticated investment needs. PH&N IM have extensive experience managing balanced portfolios and currently manage \$10 billion in balanced mandates for more than 200 institutional clients.

Their key objective is to add value while controlling risk. Their approach is characterized by teamwork and long-term thinking. Analysts are responsible for individual security selection, portfolio construction and overall strategy. Portfolio managers ensure the implementation of each client's asset mix and investment guidelines. PH&N IM provides a full range of investment funds, including the traditional asset classes of stocks, government bonds and money market investments, as well as less-traditional asset classes and strategies such as corporate bonds and mortgages.

SIDIT's portfolio is positioned to protect its capital and outperform its benchmark in periods of stock market weakness, primarily due to the use of a low volatility equity strategy. It may however underperform in periods of stock market strength.

Discussion

The positive macroeconomic signals that emerged in the second half of 2016 continued to thrive into the first part of 2017. Global leading economic indicators remain at their best levels in several years, economic surprises have been overwhelmingly positive, and corporate earnings continue to improve. The most significant uncertainty hanging over global investors today relates to what the Trump administration will do over the coming four years, but thus far, optimists would appear to outnumber pessimists: risk assets such as equities have soared, enjoying remarkably little volatility in their upward trajectory, the U.S. dollar has risen, bond yields have gone up, and credit spreads have narrowed. The combination of surprisingly strong economic data, surging consumer and business confidence, and better-than-expected earnings propelled global stock markets higher over the last year, with most major indexes delivering gains in high double digits.

More specifically as it relates to fixed income markets, after having risen materially in the latter stages of 2016, global bond yields have traded in a fairly narrow range to start 2017. Strong demand for risk assets resulted in solid performance for provincial and corporate bonds over the last year. The medium-to-long-term view has not changed; it is forecasted that global bond yields will move gradually higher as extraordinary central bank monetary policy subsides and global economic growth normalizes. That said, the path to higher rates is not likely to be a straight line.

Against this backdrop, the Trust's investment portfolio earned a return of 8.1% in the year ended March 31st, 2017. This is a good return which is in excess of the Consumer Price Index +3% target, though has trailed the benchmark over the last year. Given the strength in equity markets, low volatility strategies (Canadian and Global equities) have not kept pace with broader equity market returns, which is in line with expectations. Over longer term periods, the funds have performed as expected and have preserved capital in weaker markets which ultimately delivers a smoother path of long term performance.

Within the portfolio, the Trust continue to hold a moderately overweight equity position. This reflects the favourable view of equities given the continuing supportive momentum of the risk-on environment that began last year. Within fixed income, the Trust sees opportunities for more return potential among carefully selected Canadian provincial and high-quality corporate bonds, where compensation for risk remains above historical averages. Additionally, an allocation to High Yield Mortgages was recently added to the portfolio which provides further diversification, enhances overall yield, and lessens the sensitivity to changes in interest rates within the fixed income component of the portfolio.

GOAL 5 CREATE AND SUSTAIN PUBLIC AWARENESS OF AND SUPPORT FOR SIDIT'S PURPOSE, GOALS, ACHIEVEMENTS AND SUCCESSES WITH A FOCUS ON PARTNERSHIP DEVELOPMENT, COLLABORATION AND EXTENDING RURAL REACH.

Strategies

1. Focus on collaborative partnership development and extending rural reach.

PERFORMANCE TARGETS AND METRICS:

- a) Measure and report annually on the extension of SIDIT's profile and community reach including: media profile/hits, community and partner presentations, joint activities, testimonials and success stories
- b) Support and facilitate Staff, Regional Advisory Committee and Board member presentations and ambassadorship by providing a "toolkit" for use in presenting and promoting SIDIT to community stakeholders.
- c) Distribute a press release for every SIDIT loan, investment and grant.

2. Deliver customized messages to specific stakeholder group using a variety of communication tools. Target audiences and stakeholders include:

PERFORMANCE TARGETS AND METRICS:

Business Community

- Potential and Existing Investee Companies and Organizations
- Chambers of Commerce/Boards of Trade
- Business/Industry Associations
- Economic Development Agencies
- Tourism Associations
- Professional Service Providers (i.e., lawyers, accountants, bankers)

Lending Partners

- Financial Institutions/Banks/Credit Unions
- Development Lenders and Investors (BDC/CFDC/WEC)
- Federal/Provincial/Institutional Grant Funders
- Private Equity Groups

Educational Partners

- Universities and colleges
- Accredited training schools

Government/Communities

- Municipal Governments
- Regional Advisory Committees
- Community-Based Organizations Involved in Community and/or Economic Development Activities
- First Nations
- The General Public
- Members of the Legislative Assembly
- Senior Ministry officials
- SIDIT Area Members of Parliament

PERFORMANCE TARGETS AND METRICS:

- a) Share client success stories in all forms of media (print, publications, social media).
- b) Encourage the impact of Staff, Regional Advisory Committee and Board members' presentations and ambassadorship by providing a "toolkit", including video and print materials for use in presenting and promoting SIDIT to stakeholders in their communities.

Results

PARTNERSHIP WITH UNIVERSITY OF BC OKANAGAN

In Fiscal 2017, SIDIT collaborated with the University of BC, Okanagan Campus by investing \$50,000 in the UBC Okanagan co-op student program. The pilot program makes available grants of up to \$5,000 to qualifying businesses in the Southern Interior region of B.C. looking to bring on a co-op student from the pre-screened talent pool for the first time. The goals of the grant program are to develop co-op experiences and opportunities, encourage small- to medium-sized enterprises in the Southern Interior to hire a co-op student, support regional resident recruitment efforts by helping students access employment off-campus, as well as create a bridge between communities and the Okanagan campus of UBC.

The program has a particular focus on co-op work experiences that demonstrate direct impact and community development around agriculture, forestry, pine beetle recovery, transportation, tourism, mining, small business, economic development and energy matters. SIDIT has provided 50% of the wage costs for students up to \$5000.

SIDIT'S BUSINESS ADVISORY SERVICES PROGRAM

The Business Advisory Services Program was launched in Fiscal 2017, and was developed to assist small to medium size businesses with practical and functional support. The Program customizes peer-to-peer mentoring solutions in order to assist business owners to successfully navigate the path to success by offering affordable hands on expertise and actionable solutions when they need it most.

Case Studies have been prepared for some of the Business Advisory Services Program clients and can be viewed on the SIDIT BAS website at <http://www.siditbas.com/case-studies/>

2016 SOCIO-ECONOMIC REPORT

The Socio-Economic Report, prepared by Lochaven Management Consultants/Urban Matters in 2016, focused specifically on SIDIT and how SIDIT's programs impacted the communities of the Southern Interior. The report focused on the acquisition of both qualitative and quantitative impact related information; and employed both primary and secondary research. By definition, the approach included a process of scoping, direct fiscal assessment, surveying of a stratified sample of clients/ stakeholders, and the careful inputting and imputing of indirect/induced impacts. The Report in its entirety can be viewed on our website at: <https://sidit-bc.ca/application/files/2814/8711/2619/SIDITImpactAssessment-SPREADS.pdf>

SIDIT COMMUNICATIONS

SIDIT attended and presented to 11 different organizations in Fiscal 2017, including both the Southern Interior Local Government Association and the Association of Kootenay and Boundary Local Government conferences in April 2016.

In addition to the programs and reports noted above, SIDIT publishes newsletters and press releases on funded grants and loans, as well as setting out the full list of approved grant and loan recipients in this Annual Report. SIDIT continues to attend and provide useful information on its programs to businesses and municipalities in the Southern Interior. SIDIT has developed a communications plan and is consistently getting the word out in the Southern Interior as to what SIDIT does and how it may help grow the economy.

Discussion

At the Strategic Planning meeting of SIDIT's Board of Directors, held in September, 2016, the Board determined that an additional Goal was required to measure awareness and support for SIDIT's economic initiatives in the Southern Interior. As this Goal did not come in to affect until Spring 2017, full measurement of it will not be realized until the end of Fiscal 2018.

Post Secondary Grants

In 2016/17 SIDIT provided \$250,000 to fund student scholarships, bursaries and coop program. This commitment greatly enhances SIDIT's mission to provide student learning opportunities, create and advance knowledge and understanding, and enhance the economic and social well-being of the communities in the Southern Interior.

Testimonials

SIDIT SCHOLARSHIP RECIPIENTS FROM THE UNIVERSITY OF BRITISH COLUMBIA OKANAGAN



Blago Hristovski, Fourth Year, Mechanical Engineering

"I would like to extend my sincere appreciation to the Southern Interior Development Initiative Trust, which has financially assisted me in completing a bachelor of applied science from UBC's Okanagan campus. Since I was a young child, aircraft have fascinated me. This fascination grew into a passion for flying aircraft. Since high school, I have wanted to pursue a career where I could enhance lives with my contributions. Therefore, I combined my passion for aerospace and engineering to continue advancing aerospace technology, which will allow society to fly further and more safely every day. After graduating, I am beginning my master of applied science at the University of Toronto Institute for Aerospace Studies, where I will further study the design of highly maneuverable unmanned aerial vehicles (UAVs). This research area has excellent potential to reduce the operational costs and the associated risks for high-risk flight missions where there are lives on the line and every second counts. Once again, thank you Southern Interior Development Initiative Trust for your support of SIDIT Scholarship Recipients from the Okanagan College."



OKANAGAN COLLEGE SCHOLARSHIP RECIPIENTS WERE ASKED
HOW HAS THIS AWARD HELPED THEM AND WHAT THEIR CAREER GOALS ARE?

Justin Greenway (Culinary Arts)

"Pay for tuition and help support myself financially so I can focus on school" – "I want to open my own bakery"

Joseph Ross (Welding Foundation)

"Cut down on school debt" – "travel the world as a welder"

Matt Walsh (Welding Foundation)

"Kept me from having to choose between my home and schooling"

Shae Kiryliuk (Electrical Pre App)

"Will help me work less and study more" – "Achieve red seal"

Cody Lee Forsythe (Welding Foundation)

"Help cover expenses such as books, tools and rent"

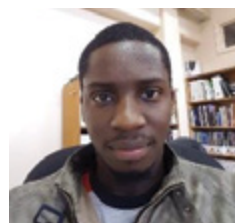
Joseph Ross

"This award will go along way to helping me with the practical side of the endeavor such as books, boots and welding gloves. As I am new to this field and line of work I will tend to go through quite a few pairs of gloves."



*Pam Deveau with
Joseph Ross*

THOMPSON RIVERS UNIVERSITY 2016–2017



Emmanuel Hananiya

"I would like to thank you for awarding me this bursary. It really means a lot to me as I am really financially unstable and was owing tuition for the winter semester but with your award I am one step closer to covering that debt. Thank you very much for making a difference in students' lives and education. God bless."

Kyley Drach

"I would like to start off by first thanking your organization so much for investing in my education and future. I have never won an award before, so this was very special for me. Without your contribution, I wouldn't have been able to afford taking the extra class I was taking during my semester at TRU, so thank you very much. Having someone invest in my education relieved a bit of my financial strain and helped me to better focus on my studies. It's also very encouraging to see that there are people out there who value education enough to invest in students! Once again, thank you so much and I hope through my education and your support I can continue to make positive changes in my life and the lives of others."



Mae Frank

"Winning this award means a lot to me as it will give me much more than money. That money can be translated into 55 hours of time that I will not be working during the year; this is an extra two hours a week for me to enjoy. These hours will be spent studying to keep my grades up as well as practicing a healthy lifestyle and relieving my stress. I will be able to spend an extra hour studying without the consequence of losing an hour of sleep, and I will have the freedom to go on long hikes (which are the only things that get me through exams). I would like to thank SITID for opening up a world of possibilities for me and rest assured that those possibilities will not be squandered."

SIDIT's Business Advisory Services Program



In September 2016 SIDIT officially launched its Business Advisory Services ("BAS") Program. The creation of the BAS Program is an important part of SIDIT's continued mission to support and accelerate the success of southern interior businesses.

The BAS Program recognizes that every business is unique, as such the Program is designed to conform to a particular business' needs. The BAS Program provides peer-to-peer mentoring through established-executive Advisors, and successful business leaders in their own right. The BAS program provides small to medium size businesses with access to expert knowledge in various areas, such as Human Resources, Marketing, Technology, Agriculture, Manufacturing and day to day operations.

SIDIT's BAS Program is designed to help small to medium size businesses achieve their vision for growth and sustainability.

Testimonials



"WHAT HAS IT MEANT TO YOU TO WORK WITH SIDIT?"

Troy McDonald, General Manager, Nor-Val Rentals

"I had never heard of SIDIT before all of this but I can tell you this, SIDIT has been an angel for Nor-Val, we had a vision for this company and now we are living it entirely because of SIDIT. None of this would have been possible without SIDIT, none of it"



"WHAT WAS THE GREATEST VALUE OF WORKING WITH THE BUSINESS ADVISORY SERVICE?"

Jim Clipperton, Owner, Nor-Val Rentals

"Even with my own trusted advisory board firmly in place, I knew that I could benefit from this service. So many companies don't even have boards, let alone these key specialists available to them. BAS was able to fill the gaps for Nor-Val with expertise and experience exactly where we needed it."



"WHAT WOULD YOU TELL OTHERS CONSIDERING THE BUSINESS ADVISORY SERVICE AT SIDIT?"

Josh French, Owner, Heimann & Sons Masonry

"I wish I had found this service 10 years ago, the money you pay for this program is peanuts compared to what you get out of it in return. I get it, when you're a business owner time is expensive but this is truly the best time and money you'll ever spend. It's investing in your end game."

Read the complete case studies at <http://www.siditbas.com/case-studies/>

Management Discussion and Analysis

We prepared this discussion and analysis of financial position and results of operations of SIDIT on May 31, 2017. Read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2017.

We prepared the financial information in this report in accordance with Canadian accounting standards for not-for-profit organizations. We report in Canadian dollars. Totals and percentages may not always add up due to rounding.

Nature of Operations

We were established as a corporation in 2005 by the Southern Interior Development Initiative Trust Act and operate as a not-for-profit economic development trust. As a non-profit corporation, we are exempt from income taxes. We are not a GST registrant and therefore pay GST and provincial sales tax and receive no rebates on taxable purchases.

We are not an agent of the government.

Internal Control Over Financial Reporting

Our fiscal 2017 evaluation of the effectiveness of internal control over financial reporting did not identify any control gaps that are likely to materially affect SIDIT.

Revenue Sources

We received a one-time development allocation payment from the BC Provincial Government in the amount of \$50 million.

100% of our operational funding comes from returns on market investments and development initiatives including loan interest and application fees.

Our model is premised on generating sufficient revenue to allow us to break even over the business cycle. We generate surpluses during high points in the market's cycle, and may generate deficits during bear market periods.

Category	Source	Fiscal 2017	Fiscal 2016
Investment Income	Phillips Hager & North–Mutual Funds and Bonds	48%	39%
Development Initiative Income	Private Companies	52%	61%
Contributions	BCIC	0%	0%

Investment Income

Our prime investment objectives for surplus funds are: to meet SIDIT's financial obligations, related to disbursements in support of economic development initiatives; and the day to day operations of the Trust, while preserving and expanding reserves necessary to meet future opportunities and obligations.

We invest in: highly liquid/high quality money market instruments; government securities; investment-grade corporate debt securities; Canadian equities; foreign equities; pooled funds; closed-end investments; companies; and other structured vehicles that are permitted investment categories.

Development Investment Income

We lend to, and invest in, promising commercial enterprises that may not fully qualify for credit through traditional sources, balancing the level of risk that is present, with the community economic benefits that are being created, and the long-term potential that future cash flow and equity targets will be achieved. Interest rates are risk based.

Contributions

We have an agreement with the British Columbia Innovation Council (BCIC) to jointly support economic development initiatives within our area.

Expenses

We are committed to managing our operational expenses so they do not exceed expected revenue over the business cycle. We do this by preparing an annual operating budget that is approved by the Board. Monthly budget variance reports are provided to the Management Committee. Significant unbudgeted expenses require further Board approval in advance of incurring the expense.

ANALYSIS OF FISCAL 2017 OPERATING RESULTS COMPARED TO BUDGET

	2017 Actual	2017 Budget	Variance to Budget
REVENUES			
Income on Investments	\$789,793	\$800,000	-\$10,207
Unrealized gains/losses	\$111,871	\$0	\$111,871
Realized gains	\$1,402,216	\$719,500	\$682,716
Income on Development Initiatives	\$2,235,436	\$1,739,000	\$496,436
Other Revenue	\$220,095	\$200,000	\$20,095
Business Advisory	\$57,464	\$243,000	-\$185,536
Contributions	\$0	\$12,500	-\$12,500
EXPENSES			
Board Costs	\$32,047	\$32,000	-\$47
Education Awards and Grants	\$726,511	\$775,000	\$48,489
Office and Administration	\$207,881	\$235,000	\$27,119
Business Advisory	\$185,148	\$373,000	\$187,852
Professional /Consulting/Investment	\$321,096	\$297,000	-\$24,096
Salaries and benefits	\$683,930	\$802,000	\$118,070
Provision for Loans	\$2,612,885	\$1,200,000	-\$1,412,885
Gain/-Deficiency	\$47,377	\$0	\$47,377

Revenue

INCOME ON INVESTMENTS / UNREALIZED GAINS (LOSSES)

With global capital markets improving but volatile, investment returns combined with unrealized gains resulted in a combined return of 8.1% which is above our budgeted 5% return on investment.

INCOME ON DEVELOPMENT INITIATIVES

We achieved 129% of our budgeted loan interest as we had several payouts in this fiscal.

OTHER REVENUE

We collected more fees on loans due to fees being charged for early payout and several deferral options exercised.

CONTRIBUTIONS

British Columbia Innovation Council (BCIC) drew nothing out of the budgeted amount for payout to students. The remaining student grants should be paid in 2018 and that will be the final year of contributions.

Expenditures

BOARD COSTS

The Board costs for meetings were on budget, even with additional meetings for our 10 year anniversary and committee meetings.

EDUCATION AWARDS AND GRANTS

We fund education awards in partnership with others. The Education institutions decide which students receive funds and how funding is disbursed. Our Education budget variance of \$25,000 is due to BCIC drawing out less than the budgeted amount for payout to BCIC/SIDIT funded programs. BCIC's 50% share of funding is reflected in "Contributions".

A Grant budget variance of \$23,489 is due to previously committed grants being postponed to the next fiscal yearend due to the proponents not being able to verify matching funding. We did meet our Strategic Target for grants which was for a total of \$5,500,000.

OFFICE AND ADMINISTRATION

We had a \$27,119 surplus in operations due to amortization and communication costs being lower.

SALARIES AND BENEFITS

The \$118,069 surplus in admin salaries was due to not having all staff positions filled during the year.

PROFESSIONAL ACCOUNTING

Accounting Services was \$8,823 over as we had a new Audit team come in early January to do preliminary work. We have a surplus of \$5,670 for consulting services as we did not do as many Due Diligence Reports as budgeted. A surplus for BAS was offset by the lower corresponding revenues so that the allocated amount of budget was on target. A surplus of \$3,766 was incurred with lower investment management fees. Legal costs went over budget by \$22,525 as we had a major change to Loan Agreements for Revolving Loans, policy reviews and personnel issues. We had a \$2,183 deficit in Web and Data base fees due to not completing our new website within the last fiscal year and we also changed our IT support service provider.

PROVISION FOR DEVELOPMENT INITIATIVE LOSSES

An additional provision of \$2,612,885 has been made against certain outstanding development initiative investments which management considers unlikely to be recovered.

FINANCIAL POSITION

ASSETS & LIABILITIES

	2017	2016	2015	2014	2013
Assets					
Current Assets:					
Cash and cash equivalents	\$862,054	\$356,951	\$1,107,445	\$1,518,509	\$3,219,309
Accounts receivable			\$162,016	\$640,625	\$149,377
Prepaid expenses	\$10,720	\$5,381	\$6,701	\$8,478	\$10,445
CP of Development Initiatives	871,504	\$2,096,614	\$3,488,859	\$447,384	\$2,257,701
	\$1,744,278	\$2,582,479	\$4,765,021	\$2,614,996	\$5,636,832
Investments	\$29,283,422	\$29,601,310	\$30,753,080	\$30,048,349	\$30,270,043
Development Initiatives	\$19,721,853	\$18,606,431	\$14,949,834	\$17,140,914	\$12,393,716
Property & Equipment	\$34,841	\$19,428	\$33,270	\$43,074	\$27,772
	\$50,784,394	\$50,686,115	\$50,501,205	\$49,847,333	\$48,328,363
Liabilities and Fund Balance					
Current Liabilities:					
Accounts payable	\$129,680	\$78,778	\$58,688	\$60,940	\$348,413
Deferred contributions	\$12,500	\$12,500	\$14,500	\$255,500	\$433,139
	\$142,180	\$91,278	\$73,188	\$316,440	\$781,552
Fund Balance:					
Regional Account:					
Externally restricted	\$50,642,214	\$50,594,837	\$50,428,017	\$49,530,893	\$47,546,811
	\$50,784,394	\$50,686,115	\$50,501,205	\$49,847,333	\$48,328,363

Assets

CASH AND CASH EQUIVALENTS

Our cash equivalent assets are monies currently held in Vantage One Credit Union.

ACCOUNTS RECEIVABLE

Our accounts receivable include accrued interest on Development Initiatives for the month of March.

PREPAID EXPENSES

Prepaid expenses are monies paid for rent deposits and for insurance premiums paid in advance.

CURRENT PORTION OF DEVELOPMENT INITIATIVES

This includes that portion of Development Initiatives that are due and payable in the next year.

DEVELOPMENT INITIATIVES

As part of our mandate, we provide funding for business ventures. This funding is provided through our development initiatives.

INVESTMENTS

The principal financial instruments affecting our financial condition and results of operations are bonds and equity investments. Our investments expose SIDIT to global market risk as well as interest rate risk. Although the short-term nature of our cash and money market investments limits

the impact of fair value fluctuations, our longer-term bonds and debentures will have greater interest rate sensitivity. We manage interest rate risk by monitoring portfolio duration and yields with the fund administrator. Liquidity risk is low because our market investments are in pooled fund units redeemable within a short time period. Our funds are invested with Phillips, Hager & North Investment Management

PROPERTY & EQUIPMENT

Capital assets include office furniture, computer hardware and software with the net book value of \$34,841 after depreciation.

Liabilities

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes monies owed to a loan client. Accrued liabilities of \$19,635 are for accounting fees.

CURRENT PORTION OF DEFERRED CONTRIBUTIONS

This represents \$12,500 of the unspent externally restricted grant from the British Columbia Innovation Council.

Equity

REGIONAL ACCOUNT

This account has increased by current net gain of \$47,377.

PROFIT AND LOSS ACTUALS

	2017	2016	2015	2014	2013
Income on Investments	789,792	754,566	893,694	761,868	828,276
Income Development Initiatives	2,235,436	1,564,666	1,858,465	1,421,093	1,735,793
Other revenue	220,095	449,294	255,447	204,345	87,824
Contributions	-	2,000	241,000	177,639	22,625
Business Advisory	57,464	-	-	-	-
Total Revenues	3,302,787	2,770,526	3,248,606	2,564,945	2,674,518
Board Costs	32,047	24,924	22,833	17,453	17,382
Education Awards and Grants	726,511	707,173	930,000	1,235,750	556,550
Office and Administration	207,881	148,465	147,143	133,591	84,268
Professional Fees	321,096	399,161	201,480	176,224	239,611
Salaries and Benefits	683,930	652,813	578,627	466,792	332,656
Business Advisory	185,147	-	-	-	-
Total Expenses	2,156,612	1,932,536	1,880,083	2,029,810	1,230,467
Excess of Revenue over Expenses	1,146,175	837,990	1,368,523	535,135	1,444,051
Unrealized gain(loss) Investments	111,871	(889,793)	2,691,174	2,190,751	2,578,925
Realized gain(loss) on investments	1,402,216	1,424,780	1,175,949	446,938	(706,178)
Provision for Development Initiative Losses	(2,612,885)	(1,206,157)	(4,338,522)	(1,188,743)	(2,599,060)
NET INCOME (LOSS)	47,377	166,820	897,124	1,984,081	717,738

LIQUIDITY

Cash flow, excluding provision for development initiative losses and unrealized loss on investments, was positive for the year at \$.5 million. We ended the year with \$.86 million in cash and cash equivalents.

As discussed, our revenue model may result in surpluses and deficits over the business cycle because revenues fluctuate while our costs are mainly fixed. We have sufficient liquidity and capital resources to fund operations through a sustained market downturn.

STATEMENT OF CASH FLOWS	2017	2016
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	47,377	166,820
Items not involving cash:		
Amortization	8,227	13,841
Fair value re-measurement of investments	(111,871)	889,793
Gain on disposal of investments	(1,402,216)	(1,424,780)
Provision for development initiative losses	2,612,885	1,206,157
	<u>1,154,402</u>	<u>851,831</u>
Change in non-cash operating working capital	45,563	19,410
Funding of development initiatives	(3,759,805)	(4,068,737)
Repayment of development initiatives	1,256,607	760,246
	<u>(1,303,233)</u>	<u>(2,437,250)</u>
Investing:		
Proceeds on sale of investments	9,318,657	8,279,558
Purchase of investments	(7,486,682)	(6,592,802)
Acquisition of property and equipment	(23,639)	-
	<u>1,808,336</u>	<u>1,686,756</u>
Increase(decrease) in cash and cash equivalents	505,103	(750,494)
Cash and cash equivalents, beginning of year	356,951	1,107,445
Cash and cash equivalents, end of year	<u>862,054</u>	<u>356,951</u>

Commitments:

As at March 31, 2017, the Trust has committed funding and deferred contributions of \$87,500 as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing - Fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$12,500	2018
Various development initiatives and grants	Conditionally approved grants	\$75,000	2018

FUTURE OUTLOOK

BUDGET AND 3 YEAR PROJECTIONS

	2018 Budget	2019 Projected	2020 Projected	2021 Projected
Investment Revenues	\$1,535,500	\$1,396,000	\$1,242,000	\$1,200,000
Development Initiatives Revenues Other	\$1,738,000	\$2,000,000	\$2,200,000	\$2,302,000
Revenues	\$353,000	\$450,000	\$450,000	\$450,000
Contributions	\$12,500	\$0	\$0	\$0
Total Revenues	\$3,639,000	\$3,846,000	\$3,892,000	\$3,952,000
Education Awards	\$275,000	\$250,000	\$250,000	\$250,000
Grants	\$500,000	\$500,000	\$500,000	\$500,000
Total Education & Grants	\$775,000	\$750,000	\$750,000	\$750,000
Wages & Benefits	\$807,000	\$864,000	\$900,000	\$950,000
Board expenses	\$38,000	\$32,000	\$32,000	\$32,000
Admin costs	\$250,000	\$250,000	\$260,000	\$270,000
Professional Services	\$569,000	\$750,000	\$750,000	\$750,000
Total Expenses	\$1,664,000	\$1,896,000	\$1,942,000	\$2,002,000
Total Expenses & Grants	\$2,439,000	\$2,646,000	\$2,692,000	\$2,752,000
TOTAL INCOME OVER EXPENSES	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
Provision for Development Initiatives Loss				
NET INCOME	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
	\$0	\$0	\$0	\$0

Revenues

Investment income is expected to be 5% as we are forecasting a slow growing global economy. We have not made forecasts for unrealized gains/losses.

Development Initiative interest income is calculated on 10% returns on development initiative balances net of provisions.

Non-interest revenues and partner contributions are budgeted to remain steady for the next few years.

Expenses

Education awards will decline in 2019 as our commitment for certain awards will be fulfilled.

Our financial statements are recorded on a cash basis, meaning that disbursements are made to projects regardless of the year for which the funds were budgeted. In our annual budget, previous years uncommitted funds are accounted for and are also available for disbursement.

Salaries and benefits are projected to increase for inflationary, experience and bonus components.

All other expenses are carefully controlled and most have inflationary increases to the categories.

Management's Responsibility and Certification

Management is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management has prepared the financial statements according to Canadian accounting standards for not-for-profit organizations.

We certify that:

- *We oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian accounting standards for not-for-profit organizations;*
- *We have reviewed the financial statements and other information in this annual report;*
- *We believe the report reflects all material facts for the period covered;*
- *We do not believe the report misstates any material fact.*

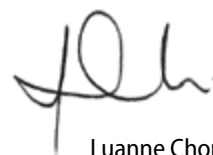
We believe that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Southern Interior Development Initiative Trust (the Trust) as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. We do not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and conduct. It is the Trust's policy to maintain the highest standards of ethics in all its activities. The Trust has employee and director conduct policies, including conflict of interest rules, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent directors who do not participate in the day-to-day operations of the Trust. The audit committee meets annually with management and the external auditors to review the:

- *Financial statements,*
- *Adequacy of financial reporting, accounting systems and controls, and*
- *External audit functions.*

The external auditors have full and open access to the audit committee, with and without the presence of management. The audit committee has reviewed these financial statements and has recommended the Board approve them.



Luanne Chore
Chief Executive Officer



KPMG LLP
3205-32 Street, 3rd Floor
Vernon BC V1T 9A2
Canada
Tel 250-503-5300
Fax 250-545-6440

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southern Interior Development Initiative Trust

We have audited the accompanying financial statements of Southern Interior Development Initiative Trust, which comprise the statement of financial position as at March 31, 2017, the statement of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

Auditors' Responsibility

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southern Interior Development Initiative Trust as at March 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information

The financial statements of Southern Interior Development Initiative Trust as at March 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on May 30, 2016.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants

May 29, 2017

Vernon, Canada

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 862,054	\$ 356,951
Prepaid expenses	10,720	5,381
Current portion of development initiatives (note 3)	871,504	2,096,614
	<u>1,744,278</u>	<u>2,458,946</u>
Development initiatives (note 3)	19,721,853	18,606,431
Investments (note 4)	29,283,422	29,601,310
Property and equipment (note 5)	34,841	19,428
	<u>\$ 50,784,394</u>	<u>\$ 50,686,115</u>

Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued liabilities	\$ 129,680	\$ 78,778
Deferred contributions	12,500	12,500
	<u>142,180</u>	<u>91,278</u>
Regional Account	50,642,214	50,594,837
Commitments and contingencies (note 6)		
	<u>\$ 50,784,394</u>	<u>\$ 50,686,115</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
  Director

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Operations and Changes in Fund Balance

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Income on development initiatives	\$ 2,235,436	\$ 1,564,666
Fees and other	199,095	451,294
Business advisory services	57,464	-
	2,491,995	2,015,960
Education awards and grants	(726,511)	(707,173)
Provision for development initiative losses	(2,612,885)	(1,206,156)
	(847,401)	102,631
General and administrative expenses:		
Amortization	8,227	13,841
Board costs	32,047	24,924
Business advisory services	185,147	-
Consulting fees	134,331	252,784
Insurance	6,112	5,978
Office and administration	172,543	128,647
Professional fees	93,531	53,832
Salaries and benefits	683,930	652,813
	1,315,868	1,132,819
Deficiency of revenues over expenses from operations	(2,163,269)	(1,030,188)
Investments:		
Fair value re-measurement of investments	111,871	(889,793)
Gain on disposal of investments, net	1,402,216	1,424,780
Income earned	789,793	754,566
Investment management fees paid	(93,234)	(92,545)
	2,210,646	1,197,008
Excess of revenues over expenses	47,377	166,820
Regional account, beginning of year	50,594,837	50,428,017
Regional account, end of year	\$ 50,642,214	\$ 50,594,837

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ 47,377	\$ 166,820
Items not involving cash:		
Amortization	8,227	13,841
Fair value re-measurement of investments	(111,871)	889,793
Gain on disposal of investments	(1,402,216)	(1,424,780)
Provision for development initiative losses	2,612,885	1,206,157
	1,154,402	851,831
Change in non-cash operating working capital	45,563	19,410
Funding of development initiatives	(3,759,805)	(4,068,737)
Repayments of development initiatives	1,256,607	760,246
	(1,303,233)	(2,437,250)
Investing:		
Proceeds on sale of investments	9,318,657	8,279,558
Purchase of investments	(7,486,682)	(6,592,802)
Acquisition of property and equipment	(23,639)	-
	1,808,336	1,686,756
Increase (decrease) in cash and cash equivalents	505,103	(750,494)
Cash and cash equivalents, beginning of year	356,951	1,107,445
Cash and cash equivalents, end of year	\$ 862,054	\$ 356,951

See accompanying notes to financial statements.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements

Year ended March 31, 2017

Nature of operations:

Southern Interior Development Initiative Trust (the "Trust") was formed in February 2006 under the Southern Interior Development Initiative Trust Act (the "Act") and shortly thereafter received a one-time contribution from the Province of British Columbia. The Trust is a not-for-profit entity and is exempt from income tax under section 149 of the Income Tax Act.

The vision of the Trust is a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities, a future where regional investment creates significant positive impacts across the region where smaller communities are given opportunities to remain or become economically sustainable, and a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout. The mission of the Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Trust's significant accounting policies are as follows:

(a) Fund accounting:

The Trust reports its activities on a fund accounting basis. The Trust currently has a General Fund (with a \$nil balance) and a Regional Account Fund, which is externally restricted. The Regional Account includes balances which are invested in property and equipment and represents the amount currently available for development initiatives and administrative costs.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(b) Revenue recognition:

The Trust follows the restricted fund method of accounting for contributions. Under the Act, the Trust has one Regional Account fund that reports contributions restricted to activities outlined in its respective strategic plan. The externally restricted one-time contribution has been recognized in the year received. Externally restricted contributions not related to the Act are recognized as revenue in the year in which the related expenses are recognized, all within the General Fund.

Income is recognized when the service has been provided or earned, provided that collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. All income is included in the Regional Account, in accordance with the Act.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposit which are highly liquid with original maturities of less than three months. Any cash or cash equivalents held in investment portfolios is included with investments.

(d) Property and equipment:

Property and equipment are stated at cost, less accumulated amortization. Amortization is provided using the declining balance method and following annual rates:

Asset	Rate
Office furniture	20%
Leasehold improvements	20%
Computer hardware	30%
Computer software	50%

(e) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of development initiatives. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations in the year in which they become known or are revised.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(f) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. The Trust accounts for all convertible debt instruments by initially measuring the equity component of the non-publicly tradeable entity at \$nil. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Trust has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Trust determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Trust expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Cash and cash equivalents:

Cash and cash equivalents includes cash held in trust of \$110,044 (2016 - \$58,688) that is restricted in its use to offset a corresponding liability.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Development initiatives:

At year end, there are 68 (2016 - 62) development initiatives outstanding as follows:

	Gross	2017 Net	2016 Net
Loans - direct	\$ 10,232,924	\$ 9,343,719	\$ 8,895,667
Loans - convertible	11,703,669	6,859,564	8,110,073
Loans via Community Futures Development Corp. ("CFDC")	340,385	340,385	373,795
Equity - common shares	4,679,398	2,543,155	2,323,595
Equity - preferred shares	4,765,722	1,506,533	999,915
	31,722,098	20,593,356	20,703,045
Less current portion		(871,503)	(2,096,614)
	\$ 31,722,098	\$ 19,721,853	\$ 18,606,431

- (a) Loans - direct:
The trust has 23 (2016 - 22) direct loans outstanding which bear interest at rates that range from 4.10% to 16% per annum. Interest and principal amounts are due at various dates between March 23, 2018 and November 1, 2034.
- (b) Loans - convertible:
The trust has 30 (2016 - 28) convertible loans that bear interest at rates that range from 8% to 14% per annum. Interest and principal amounts are due at various dates between July 1, 2017 and September 1, 2020. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the Trust. No value has been ascribed to the convertible option.
- (c) Loans via CFDC:
The Trust has 4 (2016 - 4) loans made via CFDC's Southern Interior Business Investment Fund which bear interest at rates that range from 5.2% to 8.5% per annum. The principal amounts are due at various dates between July 31, 2018 and September 15, 2024.
- (d) Equity - common shares:
The Trust has 6 (2016 - 4) common share investments.
- (e) Equity - preferred shares:
The Trust has 5 (2016 - 4) preferred share investments that bear dividends of 8% per annum.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Development initiatives (continued):

The change in provision for development initiative losses for the year was as follows:

	2016	Change in provision, net of write-offs and recoveries	2017
Loans - direct	\$ 1,451,657	\$ (562,452)	\$ 889,205
Loans - convertible	2,543,978	2,300,127	4,844,105
Equity - common shares	2,136,243	-	2,136,243
Equity - preferred shares	2,959,190	300,000	3,259,189
	<u>\$ 9,091,068</u>	<u>\$ 2,037,675</u>	<u>\$ 11,128,742</u>

In addition to the adjustments to the above noted provision, during the year \$28,492 (2016 - \$16,278) was directly recovered in the statement of operations. These amounts had previously been allowed for and included in the provision for development initiatives.

4. Investments:

	2017	2016
Bonds, measured at amortized cost	\$ 6,042,770	\$ 5,968,717
Equities, measured at fair value	17,989,392	18,012,004
Money market, measured at amortized cost	5,251,260	5,620,589
	<u>\$ 29,283,422</u>	<u>\$ 29,601,310</u>

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

4. Investments (continued):

Details of investment activity during the year is as follows:

	2017	2016
Opening balance	\$ 29,601,310	\$ 30,753,080
Income earned and reinvested	786,259	749,025
Withdrawals	(2,525,000)	(2,343,237)
Gains on disposal of investments, net	1,402,216	1,424,780
Investment management fees paid	(93,234)	(92,545)
	29,171,551	30,491,103
Fair value re-measurement	111,871	(889,793)
	\$ 29,283,422	\$ 29,601,310

The annual weighted average rate of return for 2017 was 8.13% (2016 - 4.69%).

Investments are used as security for certain finance facilities as described in note 6.

5. Property and equipment:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 39,044	\$ 20,479	\$ 18,565	\$ 9,509
Computer hardware	37,886	24,276	13,610	9,494
Computer software	11,253	8,587	2,666	425
Leasehold improvements	15,488	15,488	-	-
	\$ 103,671	\$ 68,830	\$ 34,841	\$ 19,428

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Commitments and contingencies:

The Trust has issued letters of credit through its financial institution to provide guarantees of up to \$6,000,000, secured by investments. The Trust has issued letters of credit of \$500,000 (2016 - \$nil) at March 31, 2017.

As of March 31, 2017, the Trust has committed funding of approximately \$87,500 (2016 - \$275,000) in grants.

The Trust has indemnified Heritage Credit Union ("Heritage") in the amount of \$1,113,319 (2016 - \$1,306,635) in an agreement whereby Heritage paid out the Trust's amount owed on a development initiative loan. The indemnity was provided to Heritage against potential losses incurred on the loan. No amount has been recognized in the financial statements for this indemnification.

The Trust's total commitments, under operating leases for premises, exclusive of occupancy costs, are as follows:

2018	\$	72,940
2019		49,584
2020		49,584
2021		49,584
	\$	221,692

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Financial risks and concentration of risk:

The Trust manages its investment portfolio to earn investment income and invests according to a policy approved by the Board. The Trust is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

Concentration of risk:

(a) Credit risk

Credit risk refers to the risk that development initiative counterparties may default on their contractual obligations resulting in a financial loss. Management mitigates this risk by limiting exposure to each counterparty by dollar amount and industry sector, by maintaining a balanced portfolio and by ensuring that proper due diligence is performed before funding is committed. The Trust assesses on a continuous basis, development initiatives and provides for any amounts that are not collectible in the provision for losses.

(b) Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risks.

(i) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust is exposed to this risk on its investments in U.S. and other international equities quoted in an active market. At year end, the Trust has \$9,147,270 (2016 - \$8,916,707) in U.S. and other international equities.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Trust is exposed to interest rate risk with respect to its investment in bonds.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Trust is mainly exposed to other price risk through its investments in equities.

SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2017

8. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.

Southern Interior

DEVELOPMENT INITIATIVE TRUST

Southern Interior Development Initiative Trust Staff

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Ginny Becker | Program Manager, Business Advisory Services

Helen Patterson | Controller

Pamela Deveau | Director Corporate Resources/Corporate Secretary

Mary Goorevitch | Loans Administrator

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