



Renewable Resources Agriculture Fund Financial Statements

DECEMBER 2017

**British Columbia Investment Management Corporation
Renewable Resources Agriculture Fund**

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

British Columbia Investment Management Corporation [BCI] manages the Renewable Resources Agriculture Fund [Fund] on behalf of governing fiduciaries such as pension fund trustees and other public sector clients.

The 2017 financial statements of the Fund have been prepared by management of BCI and approved by the Chief Investment Officer/Chief Executive Officer. The financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies used in the preparation of these statements are disclosed in note 2 and 3 to the financial statements. The statements include certain amounts that are based on management’s judgment and best estimates.

BCI’s Board has established an Audit Committee. The Committee’s mandate includes making recommendations on the appointment of the external auditor for the Fund, reviewing the external audit plan; reviewing BCI’s Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, and reviewing the annual audited financial statements of the Fund. The Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

BCI maintains systems of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. BCI’s internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organizational structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. BCI’s systems of internal control is supported by external auditors who review and evaluate internal controls and report directly to the Audit Committee.

The Fund’s external auditors, Ernst & Young LLP [“EY”], have full and unrestricted access to the Audit Committee and BCI management. EY discusses with management and the Committee the results of their audit of the Fund’s financial statements and related findings with respect to such audit. The Fund’s financial statements are audited by EY in accordance with Canadian generally accepted auditing standards. EY has performed such tests and other procedures as they considered necessary to express an opinion on the Fund’s financial statements.

[S] Gordon J. Fyfe
Gordon J. Fyfe
Chief Executive Officer/Chief Investment Officer

[S] Lawrence E. Davis
Lawrence E. Davis
Senior Vice President, Finance

Independent auditors' report

To the Unitholders of
Renewable Resources Agriculture Fund

We have audited the accompanying financial statements of **Renewable Resources Agriculture Fund**, which comprise the statement of financial position as at December 31, 2017, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the auditors' 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, the auditors 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Renewable Resources Agriculture Fund** as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada
July 5, 2018

Ernst & Young LLP

Chartered Professional Accountants



BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND

Statement of Financial Position

(all amounts in thousands except number of units)

	Note	December 31, 2017	December 31, 2016
Assets			
Investments at fair value through profit or loss	4, 8	\$ 99,170	\$ 90,415
		<u>99,170</u>	<u>90,415</u>
Liabilities			
BCI cost recoveries	5	34	9
Accounts payable		<u>5</u>	<u>20</u>
Total liabilities excluding net assets attributable to holders of redeemable units		<u>39</u>	<u>29</u>
Net assets attributable to holders of redeemable units		<u>\$ 99,131</u>	<u>\$ 90,386</u>
<i>Number of redeemable units outstanding</i>	6	84.342	86.148
Net assets attributable to holders of redeemable units per unit		<u>\$ 1,175</u>	<u>\$ 1,049</u>

Commitments and Contingencies

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Statement of Comprehensive Income

(all amounts in thousands)

	Note	Year Ended December 31, 2017	Year Ended December 31, 2016
Realized and unrealized gains:			
Net realized gains	8	\$ 92	\$ 26
Net change in unrealized appreciation	8	<u>10,627</u>	<u>2,745</u>
		<u>10,719</u>	<u>2,771</u>
Expenses:			
BCI cost recoveries payable	5	100	67
Administrative and professional fees		9	39
Pursuit costs		<u>-</u>	<u>4</u>
		<u>109</u>	<u>110</u>
Increase in net assets attributable to holders of redeemable units		<u>\$ 10,610</u>	<u>\$ 2,661</u>

[S] Gordon J. Fyfe

Gordon J. Fyfe

Chief Executive Officer

Chief Investment Officer

See accompanying notes to the financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(all amounts in thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Balance, beginning of year	\$ 90,386	\$ 80,858
Increase in net assets attributable to holders of redeemable units	10,610	2,661
Redeemable unit transactions:		
Proceeds from units issued	88	7,672
Amounts paid for units redeemed	(1,953)	(805)
Net increase (decrease) from redeemable unit transactions	(1,865)	6,867
Balance, end of year	\$ 99,131	\$ 90,386

Statement of Cash Flows
(all amounts in thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating activities:		
Increase in net assets attributable to holders of redeemable units	\$ 10,610	\$ 2,661
Adjustments for:		
Net realized gain from investments	(92)	(26)
Net change in unrealized appreciation from investments	(10,627)	(2,745)
Proceeds from sale of investments	2,059	896
Amounts paid for purchase of investments	(95)	(7,677)
BCI cost recoveries payable	25	9
Accounts payable	(15)	15
	<u>1,865</u>	<u>(6,867)</u>
Financing activities:		
Proceeds from issue of redeemable units	88	7,672
Payments on redemption of redeemable units	(1,953)	(805)
	<u>(1,865)</u>	<u>6,867</u>
Net increase (decrease) in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to the financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND

Schedule of Investments (all amounts in thousands)				
	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Renewable resource investments ¹:	\$ 99,165	\$ 82,957	\$ 90,399	\$ 84,818
Money market investments:				
Units in BCI pooled investment portfolio				
Fund ST1	<u>5</u>	<u>5</u>	<u>16</u>	<u>16</u>
Total Investments	<u>\$ 99,170</u>	<u>\$ 82,962</u>	<u>\$ 90,415</u>	<u>\$ 84,834</u>

¹ Renewable resource investments are held through a private corporation [notes 4 and 7].

See accompanying notes to the financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. THE PORTFOLIO

British Columbia Investment Management Corporation ["BCI"] was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. The address of the BCI's registered office is at 750 Pandora Avenue, Victoria, British Columbia Canada. These financial statements have been prepared by BCI and are the responsibility of BCI management.

Under the Public Sector Pension Plans Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, BCI may establish and operate pooled investment portfolios "... in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios previously established under the Financial Administration Act and the Pooled Investment Portfolios Regulation ("Regulations"), B.C. Reg. 84/86, were continued under the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, to be held in trust by BCI and invested by the Chief Investment Officer (CIO) of BCI.

The Renewable Resources Agriculture Fund (Fund) was established on January 29, 2014.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The financial statements have been prepared in compliance with International Financial Reporting Standards ["IFRS"]. The financial statements were authorized for issue by the Chief Executive Officer / Chief Investment Officer on July 5, 2018.

(b) Accounting for investments

The Fund qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements* (IFRS 10):

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that the Fund meets the definition of an investment entity as defined in IFRS 10.

(c) Basis of measurement

The financial statements have been prepared on a historical cost basis except for investments held at fair value through profit or loss which are measured at fair value.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars which is the Fund's functional currency.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. BASIS OF PRESENTATION (continued)

(e) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In determining the fair value of some of its investments, management reviews and assesses external managers' estimates and assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail or are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in note 8 and relate to the determination of fair value of investments with significant unobservable inputs.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

(i) Recognition and measurement

Financial instruments are required to be classified into one of the following categories: held-for-trading, fair value through profit or loss ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or fair value through profit or loss in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities held for trading or at fair value through profit or loss are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund has not classified any financial instruments as available-for-sale, assets held to maturity, or held for trading.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

(ii) Fair value through profit or loss

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statement of Comprehensive Income in the period in which they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Funds use the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs.

(iii) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund's other financial liabilities are comprised of BCI cost recoveries and accounts payable.

(b) Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. In accordance with the Regulations, the Fund is required to distribute to holders of the Fund's redeemable units, the taxable income and taxable capital gains of the Fund at least annually. Accordingly, such units are classified as financial liabilities at FVTPL and measured at the redemption amount. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of BCI.

(c) Issue and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit of the Fund on inception was \$1 million. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the portfolio by the total number of units outstanding. Where the Fund invests in another BCI Fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Income recognition

Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments. The year-over-year change in the difference between the fair value and the cost of the investments held at year end is recognized as a net change in unrealized appreciation. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs are charged to pursuit costs of the Fund in the period incurred.

(e) Income taxes

The Fund qualifies as an inter-vivos trust under the subsection 108(1) of the Income Tax Act (Canada). In accordance with the Regulations, all of the Fund's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record Canadian income taxes.

(f) Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statements of the Fund, with the possible exception of IFRS 9, *Financial Instruments*.

IFRS 9 deals with recognition, de-recognition, classification and measurement, impairment and hedge accounting of financial instruments and its requirements represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The effective date of this standard is January 1, 2018, but early adoption is permitted. Management is currently in the process of evaluating the potential effect of this standard. The standard is not expected to have a significant impact on the financial statements since the Fund's financial assets are currently measured at fair value or amortized cost.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
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4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund manages the following types of investments and determines fair value as follows:

- Renewable resource investments

The renewable resource investment consists of an equity investment in one wholly-owned subsidiary corporation.

The fair value of the subsidiary corporation and the underlying limited partnership is determined by the net asset value of the entity. Fair value for the property held by the limited partnership is primarily determined by appraisals using the direct comparison method.

- Money market investment

The Fund holds units in one BCI money market fund. The units of the money market fund are valued based on the sum of the fair value of the net assets of the fund.

5. RELATED PARTY TRANSACTIONS

Third party costs that are attributable to the Fund are charged directly to the Fund. Other costs initially borne by BCI are recovered from the Fund through cost recoveries charged by BCI, which are calculated on a cost recovery basis. BCI cost recoveries and the corresponding payable are disclosed in the Fund's Statement of Comprehensive Income and Statement of Financial Position.

6. REDEEMABLE UNITS

The Fund is authorized to issue an unlimited number of redeemable units. Redeemable units issued and outstanding represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. BCI manages the capital of the Fund in accordance with the Fund's investment objectives, including managing the redeemable units to ensure a stable base to maximize returns to all investors, and managing liquidity in order to meet redemptions. Redemption of units of the Fund is determined by the cash surplus of the Fund and the underlying investments. Participating unitholders are required to redeem any surplus units in accordance with their current participation rate in the Fund.

The following is a summary of the changes in redeemable units outstanding during the year:

(in number of units)	2017	2016
Outstanding, beginning of period	86.148	79.257
Issued	0.084	7.682
Redeemed	(1.890)	(0.791)
Outstanding, end of period	84.342	86.148

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
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7. FINANCIAL RISK MANAGEMENT

(a) Risk management framework

The Fund is part of the Renewable Resources Investment Funds Program (the Funds). The Funds seek to invest in tangible long-life renewable resource assets with potential for strong cash flows and favourable risk-return characteristics that provide an attractive match with participants' liabilities. Investments in the Funds are global in scope and typically include physical assets that are used in the production of food for human consumption and wood-based products. Renewable resource assets targeted by the Funds will primarily include timberland plantations and farmlands, but may also target renewable resources used for energy production. The Fund invests directly in the equity of privately held companies and assets and through private limited partnerships managed by external fund managers. Occasionally, the Funds invest in publicly traded securities, or private or public debt instruments to gain a meaningful position in a market or a company. These positions may be taken to effect privatization or to maintain exposure to companies that own certain infrastructure assets but may not be investable in private markets at attractive valuations. The investment objective of the Funds is to provide a nominal annual rate of return of at least 7 percent.

The Funds may hold the following securities:

- privately negotiated investment securities, including, but not limited to, trust units, partnership interests, shares, debt instruments, convertible securities, rights, warrants, and units in externally managed pooled investment portfolios;
- publicly traded common stock or common stock equivalents including preferred shares, instalment receipts, convertible securities, and rights and warrants received via corporate actions;
- derivatives, such as, but not limited to, spot contracts, forwards, futures, swaps and options, to manage interest rate risk, currency exposure, and other investment risks with CIO approval;
- money market securities rated A-1(Low) or better and units of BCI's Pooled Investment Portfolio Funds ST1, ST2 and ST3 (money market funds),
- publicly traded and privately negotiated fixed income securities;
- real estate investments including, but not limited to, trust units, partnership interests, shares, and debt. Leverage is permitted on real estate to a maximum of 25 percent. However, another 5 percent is allowed for the assumption or renewal of existing debt; and
- units in Floating Rate Funds

The following restrictions apply to the Funds use of debt financing:

- no funds or direct investments will be made without extensive due diligence reviews being completed by BCI;
- the Funds may not sell short, borrow securities, or purchase securities via a margin account; and
- the investments must comply with the Pensions Benefits Standards Act, R.S.B.C. 1996, c 352.

BCI, as trustee of the Fund, has the power to vary the investments and assets of the Fund and reinvest proceeds realized from the investments of the Fund all within the bounds of the investment policies, rules and restrictions established for and governing the Fund.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
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7. FINANCIAL RISK MANAGEMENT (continued)

(a) Risk management framework (continued)

The Fund's activities expose it to a variety of financial risks. For purposes of describing the financial risks of the Fund, the composition of the net assets held by the underlying corporation and money market funds and their investing activities have been considered. The corporation holds the following underlying net assets:

	December 31, 2017		December 31, 2016	
	Total	% of	Total	% of
	(in 000s)	Total	(in 000s)	Total
Unlisted renewable resource investee fund	\$ 99,156	100.0	\$ 90,389	100.0
BCI money market funds	9	-	10	-
	<u>\$ 99,165</u>	<u>100.0</u>	<u>\$ 90,399</u>	<u>100.0</u>

b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from debt securities held, and also from cash and cash equivalents, and other receivables due to the Fund. Substantially all of the Fund's financial assets and liabilities are held in securities that are not subject to significant credit risk.

The Fund's activities may also give rise to settlement risk. Settlement risk is the risk of loss due to failure of an entity to honor its obligations to deliver cash, securities, or other assets as contractually agreed. The risk of settlement is considered minimal since the Fund's corporation holds real estate. Managers conduct financial reviews to assess potential tenants' ability to meet future lease obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other assets as contractually agreed. BCI's approach to managing liquidity risk is to ensure, as far as possible, that the Fund has sufficient liquidity to meet its liabilities when due.

The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Redeemable units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limits that may be established by the Chief Investment Officer (CIO). In order to protect the interest of all clients, the CIO may also establish redemption limits for the Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

The Fund's financial assets include unlisted equity investments which are generally illiquid. As a result, the Fund may not be able to liquidate some of its investments in these instruments in time to meet obligations when they become due. However, the CIO may obtain funding from the unitholders of the Fund through additional unit issuances to meet the Fund's ongoing liquidity requirements.

The Fund's liabilities are due within three months of the year-end of the Fund.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
RENEWABLE RESOURCES AGRICULTURE FUND
NOTES TO THE FINANCIAL STATEMENTS
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7. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the fair value of its holdings of financial instruments.

(i) Interest rate risk

Interest rate risk is the risk that the market value or cash flows of interest-bearing investments will fluctuate due to changes in market interest rates.

Most of the Fund's financial assets and liabilities are non-interest bearing. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates.

(ii) Other price risk

Other price risk is the risk that the fair value of the financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

All financial instruments are subject to other price risk and a potential loss of capital. The maximum risk is determined by the market value of the financial instruments. The Fund may not sell short, borrow securities, or purchase securities on margin, which limits the potential loss of capital. There are established investment criteria for the Fund related to diversification of investment mandates for external managers to avoid undue market risk.

Other price risk arises from the Fund's investments in direct private equity, whose valuation is based on the valuation of the underlying investee fund. The fund invests in such financial assets in order to take advantage of their long-term growth. All investments present a risk of loss of capital. BCI management moderates this risk through careful selection of the investee funds within specified limits. All of the investee funds and their underlying investments are subject to the risks inherent in their industries. Moreover, established markets do not exist for these holdings, and they are therefore considered illiquid.

The Fund makes commitments to private real estate funds managed by managers with a strong track record. BCI management follows a rigorous investment due diligence process prior to making any investment decisions. BCI management considers both qualitative and quantitative criteria in the areas of financial performance, business strategy, tax and legal compliance. The information is obtained from the underlying manager of the investee fund through on-site visits, interviews and questionnaires together with information gathered from external sources. Prior to entering into an investment agreement, gathered information is confirmed through reference checks or through BCI's standing data and experience.

As at December 31, 2017, had the fair value of the investment increased or decreased by 10%, with all other variables held constant, net assets attributable to redeemable units would have increased or decreased by approximately \$9,917 (2016 - \$9,040) of the net assets attributable to redeemable units.

The Fund only holds Canadian investments. Therefore, it is not subject to potential volatility due to political, social, and financial instability from regions outside of Canada.

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NOTES TO THE FINANCIAL STATEMENTS
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8. FAIR VALUE MEASUREMENT

(a) Fair value hierarchy

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Funds determine fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Funds measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The tables below shows investments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. All fair value measurements are recurring.

Type of investment (in 000s)	December 31, 2017			
	Quoted prices in active markets [Level 1]	Significant observable inputs [Level 2]	Significant unobservable inputs [Level 3]	Total
Renewable resource investments	\$ -	\$ -	\$ 99,156	\$ 99,156
Money market investments	-	14	-	14
Total Investments	\$ -	\$ 14	\$ 99,156	\$ 99,170

Type of investment (in 000s)	December 31, 2016			
	Quoted prices in active markets [Level 1]	Significant observable inputs [Level 2]	Significant unobservable inputs [Level 3]	Total
Renewable resource investments	\$ -	\$ -	\$ 99,389	\$ 99,389
Money market investments	-	26	-	26
Total Investments	\$ -	\$ 26	\$ 99,389	\$ 99,415

During 2017 and 2016, there were no transfers between Levels 1, 2 or 3.

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8. FAIR VALUE MEASUREMENT (continued)

(a) Fair value hierarchy (continued)

The carrying amount of the Fund's net assets attributable to redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 3 in the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 investments of the fair value hierarchy.

	2017		2016
	Total (in 000s)		Total (in 000s)
Opening balance, January 1, 2017	\$ 90,389	Opening balance, January 1, 2016	\$ 80,857
Total realized gains recognized in profit or loss	-	Total realized gains recognized in profit or loss	-
Purchases	-	Purchases	7,572
Sales	-	Sales	-
Total unrealized gains for the period included in the profit or loss	8,767	Total unrealized gains for the period included in the profit or loss	1,960
Closing balance, December 31, 2017	<u>\$ 99,156</u>	Closing balance, December 31, 2016	<u>\$ 90,389</u>

(b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Fund uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as money market instruments that use only observable market data which requires little management judgment and estimation. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exists, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates.

Observable prices and model inputs are usually available in the market for equity securities. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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8. FAIR VALUE MEASUREMENT (continued)

(b) Valuation models (continued)

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Fund believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of the Fund and the counterparties where appropriate.

(c) Valuation framework

The Fund has an established framework with respect to the measurement of fair values. In those circumstances where the Fund is reliant on a third party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third party manager or other sources.

In addition, BCI applies the following specific controls in relation to the determination of fair values:

- verification of observable pricing inputs;
- analysis and investigation of significant valuation movements; and
- review of unobservable inputs and valuation adjustments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, BCI management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- verifying that the broker or pricing service is approved by the Fund for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

(d) Significant unobservable inputs used in measuring fair value

The tables below sets out information significant unobservable inputs used at year end in measuring the fair value of renewable resource investments, unlisted direct private debt, unlisted private equity investee funds and debt issued categorized as Level 3 in the fair value hierarchy as at December 31, 2017.

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8. FAIR VALUE MEASUREMENT (continued)

(d) Significant unobservable inputs used in measuring fair value (continued)

December 31, 2017				
Investment	Fair Value (in 000s)	Valuation Technique	Unobservable Input	Sensitivity to Change in Significant Unobservable Input
Renewable resource investments	\$99,156	Unadjusted Net Asset Value	Net Asset Value	The estimated fair value would increase (decrease) if the fair value of the renewable resource investments as determined by third party managers were higher (lower).

December 31, 2016				
Investment	Fair Value (in 000s)	Valuation Technique	Unobservable Input	Sensitivity to Change in Significant Unobservable Input
Renewable resource investments	\$90,389	Unadjusted Net Asset Value	Net Asset Value	The estimated fair value would increase (decrease) if the fair value of the renewable resource investments as determined by third party managers were higher (lower).

Significant unobservable inputs are developed as follows:

(i) Net Asset Value:

Represents the net asset value of the real estate investment. BCI management values these investments primarily based on the latest audited financial statements with adjustments as deemed appropriate by management. Furthermore, such real estate investee funds are subject to redemption restrictions and accordingly the Fund is unable to dispose of the investee until the maturity or wind up and liquidation of the respective investee. In such cases, it is the Fund's policy to categorize the investee as level 3 within the fair value hierarchy.

(e) Effects of unobservable inputs on fair value measurement

The fair value of the unlisted renewable resource investee funds fluctuates in response to changes in specific assumptions for that particular investee as determined by the external manager. Although the Fund believes its estimates of fair value in Level 3 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value and net assets attributable to holders of redeemable units. The following table shows how the net assets attributable to holders of redeemable units would change if the valuation of the renewable resource investments were calculated by adjusting the respective net assets 10%.

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8. FAIR VALUE MEASUREMENT (continued)

(e) Effects of unobservable inputs on fair value measurement (continued)

(in 000s)	December 31, 2017	December 31, 2016
Favorable	\$9,916	\$9,040
Unfavorable	\$(9,916)	\$(9,040)

(f) Other financial instruments

The carrying value of BCI cost recoveries payable and accounts payable approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

9. INVOLVEMENT WITH STRUCTURED ENTITIES

The Fund's investment is held through one intermediary holding corporation which is a structured entity. Structured entities are entities that have been designed so that voting or other similar rights are not the dominant factor in determining who controls the entity. This structured entity has been set up by BCI to manage tax and other risks that may arise in the course of administering the underlying investments. The fair value of this entity, approximately \$99,165 (2016 - \$90,399), is shown under Renewable resource investments in the Schedule of Investments.

In addition, the Fund holds interests in other structured entities, both directly and indirectly (i.e. through the intermediary holding corporation). The other structured entities are comprised of directly held investee money market funds organized as unit trusts and an indirectly held investee fund organized as a limited partnership. This investee fund has been constituted to manage assets on behalf of third party investors and is financed through the issuance of units to investors or capital contributions made by the investors. Accordingly, the Fund's interest in these entities is reflected through the holding of a partnership interest.

The table below sets out the direct and indirect interests held by the Fund in these other structured entities:

	December 31, 2017			December 31, 2016		
	Number of entities	Total Net assets of entities (in 000s)	Fair value (in 000s)	Number of entities	Total Net assets of entities (in 000s)	Fair value (in 000s)
Investee money market funds administered by BCI	1	\$ 5,272,375	\$ 14	1	\$ 3,028,300	\$ 26

The fair value of the investments held in this underlying fund represents the Fund's maximum exposure to loss.

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10. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES

The Fund also holds through an intermediary holding corporation the following investment in which it has a controlling position or a position where it could otherwise exert significant influence on the operations of the investee. The table below sets out interests held by the Fund in this unconsolidated associate:

December 31, 2017								
Entity	Nature and purpose of entity	Interest held	Relationship	Principal place of business	Country of incorporation / registration	Ownership interest %	Voting rights %	Fair value included in investment in the Statement of Financial Position (in 000s)
Bonnefield Canadian Farmland LP III	Own and lease farmland	Limited partnership interest	Associate	Canada	Canada	32.6	32.6	\$ 99,156

December 31, 2016								
Entity	Nature and purpose of entity	Interest held	Relationship	Principal place of business	Country of incorporation / registration	Ownership interest %	Voting rights %	Fair value included in investment in the Statement of Financial Position (in 000s)
Bonnefield Canadian Farmland LP III	Own and lease farmland	Limited partnership interest	Associate	Canada	Canada	32.6	32.6	\$ 90,389

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11. COMMITMENTS AND CONTINGENCIES

The Fund has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at December 31, 2017, the unfunded commitments totalled \$820.7 (2016 - \$820.7).

Certain investments of the Fund may, in the normal course of business activities, be involved in disputes with third parties. The Fund was not involved in any disputes as at December 31, 2017.

12. TAXES

By order of the British Columbia Supreme Court, and affirmed on appeal by the British Columbia Court of Appeal, the investment pools managed by BCI have been declared to be immune from the application of the Excise Tax Act. Those same pools have been declared to be bound to certain reciprocal tax treaties between Canada and British Columbia which may require them to pay amounts in lieu of GST and which may entitle them to obtain full refunds of any amounts paid.



BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

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