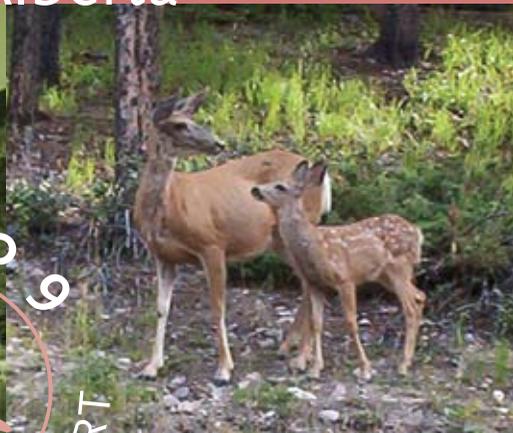




Forest Resource Improvement Association of Alberta



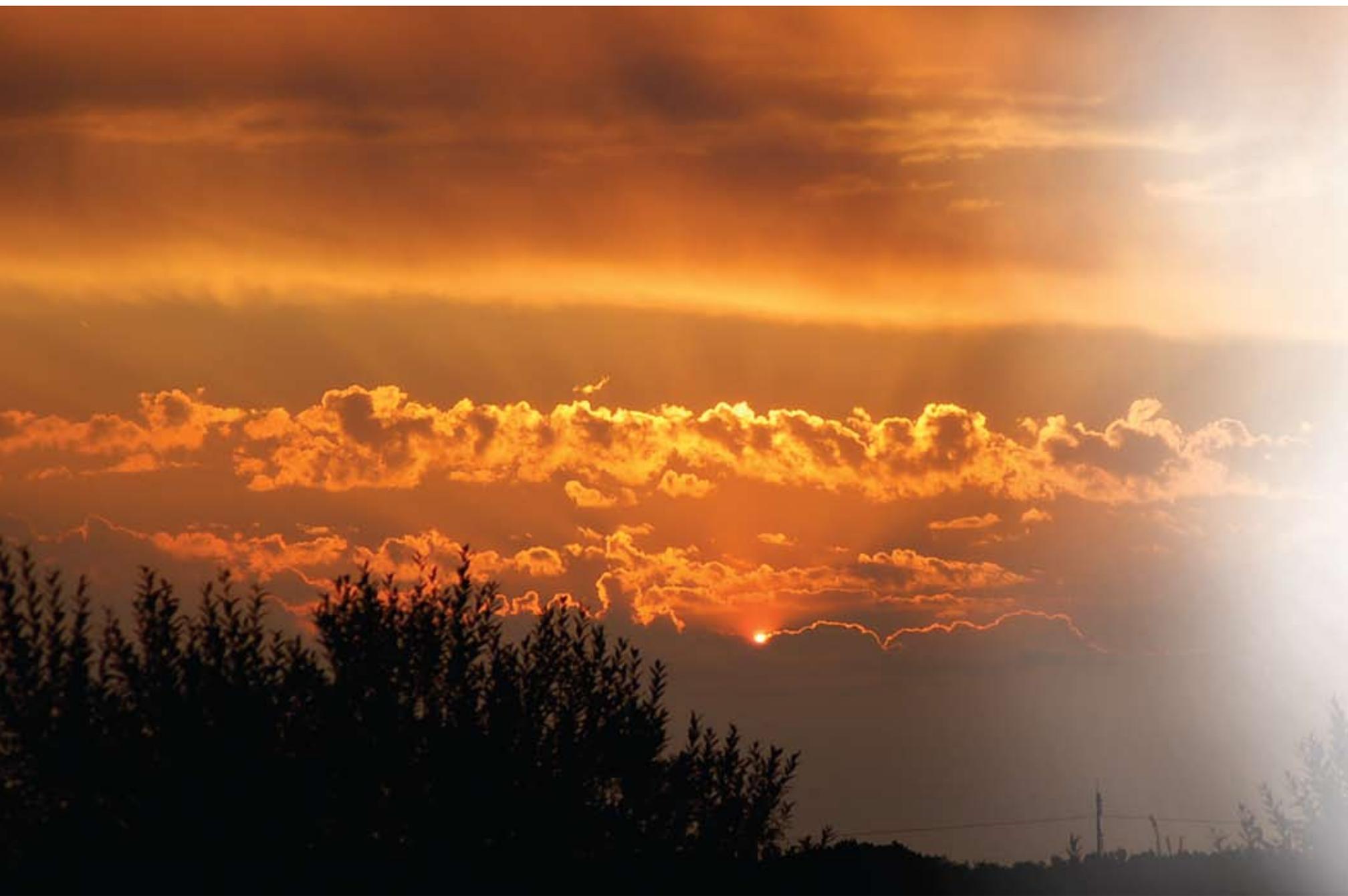


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President's Message

The 2008 fiscal year has provided many challenges for the forestry sector, both environmental and economic. The effects of insect infestations, fire damage and poor markets on Alberta's forests and forest industry have created challenges and opportunities for FRIAA to serve Albertans.



FRIAA looks to the future with optimism and with a focus on the organization's primary goal – to contribute to the health, productivity, and sustainability of Alberta's forests and forested lands. FRIAA continues to work with Alberta Sustainable Resource Development to meet this goal and ensure FRIAA's activities continue to provide benefits for Albertans.

Over the past year, the Community Reforestation Program (CRP) has encountered the most significant issues since its launch in 2000.

Increasing costs and levy rates that have not changed since FRIAA was delegated responsibility for the program have resulted in a reforestation fund that is not adequate to achieve reforestation standards on blocks harvested after 2000. Annual inflation combined with operational complexities are causing rising costs which cannot be adequately offset by static reforestation levy rates. As well, numerous disposition holders have not paid reforestation levies owing, causing further shortfall of the reforestation fund.

FRIAA has identified these issues and is working to resolve them. CRP costs have been controlled to a level near or at those in 2000, despite increased cost pressures. In addition, FRIAA has initiated actions on past due account holders in order to collect levies owing. FRIAA continues to work with Alberta Sustainable Resource Development to develop feasible solutions to these issues and ensure CRP continues to provide achieve reforestation objectives.

Alberta's forest-based industries continued to feel negative economic effects as a result of the current instability in the global economy. The prolonged low price of lumber across North America has resulted in the fall of FRIAA dues to record low levels over the past three years. Although project spending in the Forest Resource Improvement Program (FRIP) has

decreased and administration costs have remained at low levels, the fall in FRIAA dues to virtually zero results in a continued depletion of the FRIP fund.

In spite of market pressures on the FRIP fund, our prudent fund management approach has ensured that all of the fund's capital has been preserved and that a surplus of investment income remains available to cover the costs of management and administration. FRIAA is working with Alberta Sustainable Resource Development to develop a strategy for the long-term sustainability of the FRIP fund. Discontinuing FRIP would have a significant negative impact on the public and Alberta's forestry sector; finding a solution to sustain FRIP is a top priority for FRIAA.

Despite progress over the past year, environmental challenges such as the mountain pine beetle infestation and catastrophic wildfires still threaten Alberta's forests and forest communities. FRIAA's Mountain Pine Beetle Program (MPBP) continues to support beetle detection and control activities in Alberta, and has grown to include over 20 participant organizations. As well, activities under FRIAA's Wildfire Reclamation Program (WRP) moved forward over the past year. The Wildfire Reclamation Program has committed over \$41 million since 1998 to retreat reforested cutblocks destroyed by wildfire, ensuring that they grow into fully productive forests.

Looking ahead, there continue to be many opportunities to provide further benefits to Albertans. FRIAA's proven track record in sound, accountable governance and efficient administration make our organization an attractive means to deliver funded programs. FRIAA's newest initiative, the Fire Hazard Reduction and Forest Health Program, will enhance Alberta's forest resource through forest management activities designed to reduce fire hazard and maintain forest health. Other opportunities for FRIAA to serve Albertans are being investigated and as always, FRIAA is committed to sustaining its key programs that are so important to our members and the public.



Trevor Wakelin, President

FRIAA Works With Minister to Establish Unique, Functional Forestry Enhancement Programs

Board of Directors

- President:
Trevor Wakelin
- Vice President:
James Bocking
- Second Vice-President:
Doug Sklar
- Treasurer:
Murray Summers
- Directors:
Jurgen Moll
Dwight Weeks
David Kiil
Bruce Macmillan

Over the past year, FRIAA has been working closely with the Minister of Alberta Sustainable Resource Development to establish consistent, relevant priorities. By launching new, innovative programs and maintaining the success of existing programs, FRIAA will provide support to members and stakeholders while aligning with Provincial goals. Specifically, FRIAA's business plan clearly indicates that FRIAA supports the Minister by matching programs and initiatives with both Provincial and Sustainable Resource Development's (SRD) goals and objectives:

- **Provincial Goal #3** - The high quality of Alberta's environment will be sustained.
- **SRD Goal #1** - Alberta's public lands, including rangelands and shore lands, are healthy, productive, and sustainable.
- **SRD Goal #2** - Alberta's forests and forest communities are protected from wildfires.
- **SRD Goal #3** - Alberta's forest and forest landscapes support healthy ecosystems and communities.
- **SRD Goal #4** - Alberta's fish and wildlife resources and their habitats are healthy, productive, and sustainable.

In 2008/09, FRIAA continued to demonstrate success with its forestry enhancement programs. The Forest Resource Improvement Program, Wildfire Reclamation Program, Community Reforestation Program, and Incidental Conifer Program continue to experience significant support from industry. Projects completed under each of these programs over the past year have helped to sustain Alberta's forest resources, strengthen the forest industry and provide tangible results for all Albertans. Most noticeably, the recent Mountain Pine Beetle Program has had over 40 active projects since its inception in 2007, solidifying this cooperative effort between FRIAA and SRD as a winning initiative.

With the success of the Mountain Pine Beetle Program, FRIAA and SRD have evaluated a number of potential new programs over the past year. The relationship between FRIAA and the Minister of SRD is strong and results in many excellent projects and initiatives that improve and enhance forest resources for Albertans. In particular, development of the Fire Hazard Reduction and Forest Health Program is underway. This unique program is designed to maintain and enhance Alberta's forest resource through activities intended to reduce fire hazard and maintain forest health. This initiative aligns with SRD's FireSmart and Forest Health programs. FRIAA expects the forest industry will be very receptive to this program upon implementation, allowing the program to provide the largest possible benefit to Alberta's forests and forest communities.

FRIAA prides itself upon communicating effectively with its members, stakeholders, and Alberta Sustainable Resource Development. The subsequent information provided in this report demonstrates that FRIAA is performing well in relation to its goals, continues to build on strong relationships with government and industry and is active, effective and accountable in fulfilling its mandate.

Committees and Panels

The Board establishes committees to manage specific board functions that require attention outside of regularly scheduled board meetings. Mandates for these committees are established by the Board in accordance with its policies and accountability framework. Committees report directly to the Board as a whole and report against relevant policies and mandates.

Two standing committees have been established by the Board—the Audit Committee and the Fund Management Committee.

1. Audit Committee

The Audit Committee meets at least twice each year and has a mandate established by the Board that includes:

- Overseeing the preparation of financial statements by management and the conduct of audits by FRIAA's auditors.
- Recommending an auditor to the members for approval.

Members of this committee are:

- James Bocking
- Murray Summers
- David Kiil

2. Fund Management Committee

The Fund Management Committee meets twice yearly and reports to the Board in accordance with FRIAA's fund management policy. The Committee's responsibilities include:

- Ensuring the requirements of FRIAA's statements of investment policies and goals for FRIP and CRP are observed.
- Assessing the performance of FRIAA's investment manager and the investment fund against specific targets and measurement criteria.
- Monitoring to ensure FRIAA's investment returns targets are achieved.

Members of this committee are:

- James Bocking
- Murray Summers
- David Kiil

In addition to the two standing committees described above, FRIAA has also established specific committees with specific mandates, including the Open Funds Panel and the Appeal Panel, when required.

3. Open Funds Panel

The Open Funds Panel was established by the Board to review, evaluate, and make recommendations on funding projects submitted under the FRIP Open Funds Initiative in the 2008/09 year. The Panel's responsibilities included:

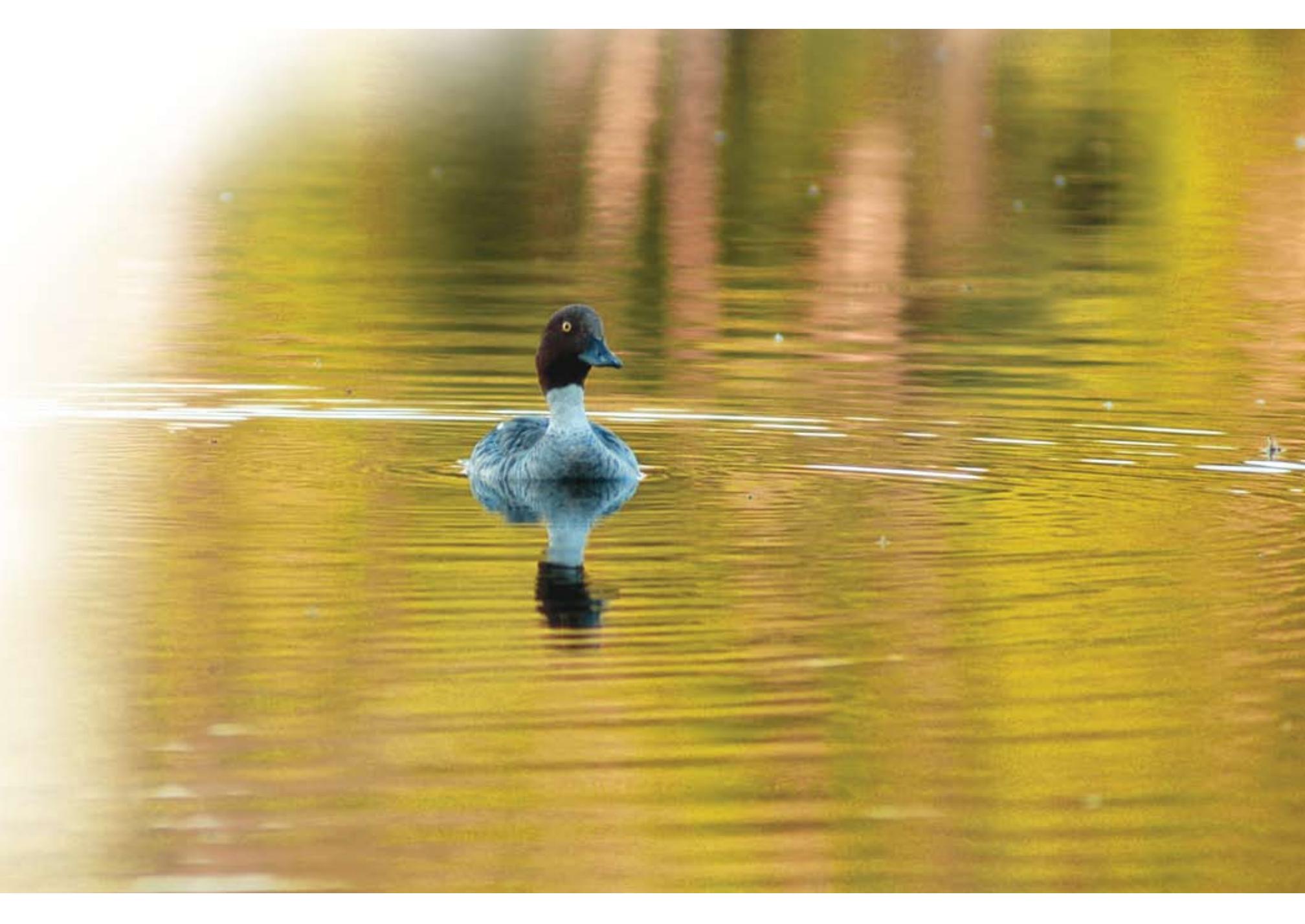
- Development of a project proposal evaluation and selection process that is transparent, equitable, and accountable.
- Selection and recommendation of project proposals that meet criteria established by the Board of Directors and that best represents the interests of FRIAA.

Members of this Panel were selected based on their significant experience and unbiased position towards proposal evaluations. The members of the panel were:

- David Kiil, Director of FRIAA (Public-At-Large Appointment), Former Director General of the Northern Forestry Research Centre.
- Cliff Henderson, Former Assistant Deputy Minister, SRD
- Barry White, Scientific Advisor, Alberta Sustainable Resource Development.

4. Appeals Panel

An Appeals Panel can be established when needed to hear appeals initiated by the membership. Members for such Panels are selected on a case-by-case basis depending on their area of expertise and suitability for the matter at hand. There were no appeals in 2008/09 and no appeal panel was struck.



Program Highlights

Programs delivered by FRIAA include the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP), the Wildfire Reclamation Program (WRP), the Incidental Conifer program (ICP), and the Mountain Pine Beetle Program (MPBP). The objectives of these programs are aimed at improving the forests of Alberta and to enhance the management of Alberta's forests for the benefit of all Albertans. The key accomplishments relative to the administration of FRIAA's programs include:

a. Maintaining the Forest Resource Improvement Program (FRIP)

The FRIP continued to be delivered at planned levels of activity in spite of FRIP dues that have been at historic low levels. FRIP project expenditures were maintained near the long term average level with just under \$12 million spent on FRIP projects over the year. In addition, there is \$19 million committed to ongoing FRIP projects as of March 31, 2009.

Response to FRIAA's Open Funds Initiative continued to be positive. In the summer of 2008, a call for proposals was released and a total of 18 proposals were submitted to the Open Funds Panel. These proposals addressed a wide range of topic areas and comprised \$3 million of cumulative funding requests. Proposals were accepted in two categories— Province wide proposals and local proposals. The final selection of successful proposals resulted in 11 projects and a commitment by FRAA of \$1.5 million in funding.

b. Continuous Improvement of the Community Reforestation Program (CRP)

In 2000, the CRP was transferred from the Government of Alberta to FRIAA. This included responsibility for reforesting cutblocks harvested after May 2000 as well as continuing government's reforestation activities on older cutblocks harvested prior to May 2000. In 2008/2009, FRIAA continued to make good progress on both parts of the Program.

The CRP subprogram related to blocks harvested between 1994 and 2000 is funded by transfers from government that represents reforestation levies collected by government from timber permit and licence holders that harvested timber on those areas. To date, the government has transferred \$16.8 million in support of this subprogram. FRIAA has

focused on completing regeneration surveys and stand tending on priority areas in order to optimize the results of the program.

The CRP subprogram related to blocks harvested after May 30, 2000 is funded by reforestation levies paid directly to FRIAA. FRIAA has continued to use the government's reforestation levy rate that was established in 2000; however this static levy rate coupled with inflationary pressures on costs is causing concern respecting the balance between program operational objectives and funding pressures. A detailed review of the situation, including the levy rate and method of application, is being undertaken to help ensure that the program is sustainable.

Collecting reforestation levies from disposition holders has been difficult for FRIAA because levies are assessed on the volume of timber harvested but FRIAA does not have access to and cannot track this information. A number of past due accounts have been identified and FRIAA has taken steps to recover these amounts in order to support the reforestation work required.

c. Maintaining the success of the Wildfire Reclamation Program (WRP)

All eligible participants in the 1998 program have been actively engaged in wildfire reclamation work. Many of the activities are now focused on the final stages of successful reforestation. Program activities have been enhanced with an emphasis being placed on the completion of establishment regeneration surveys to provide performance measures under the program.

In addition to managing the 1998 WRP program in its late stage of implementation, a second grant agreement that was signed on July 3, 2007 has thus far result in the retreatment of over 3000 hectares of reforested cutblocks damaged or destroyed by wildfires in 2006, 2007, and 2008.

d. Expanding the Mountain Pine Beetle Program (MPB)

On April 1, 2007 the MPB program was established to deal with the effects of the Mountain Pine Beetle infestation in the summer of 2006. The program's primary focus



is monitoring the movements of the Mountain Pine Beetle through ground and aerial surveys, as well as containment efforts to keep the beetle from spreading.

The funding comes directly from the Ministry of Sustainable Resource Development to FRIAA to deliver the program. To date, the program has distributed over \$1.9 million and as of March 31, 2009, another \$2 million has been committed to ongoing projects.

Business Plan Highlights

Through a three-year business plan, the Board has provided guidance and direction for FRIAA's ongoing administration. This business plan identifies a number of goals, strategies and performance expectations to ensure FRIAA's effectiveness and efficiency.

The following describes FRIAA's performance over the past year relative to the April 1, 2008 to March 31, 2011 business plan submitted to the Minister on February 28, 2008:

Goal one: To contribute to the health, productivity, and sustainability of Alberta's forests

Optimize active participation in the Forest Resource Improvement Program

FRIAA will strive to increase the level of active participation in FRIP to promote its objectives and mandate.

Results:

**Includes non-member participants*

Participant Size (m ² /year)	Number of Members			Number of FRIP Project Participants		
	06/07	07/08	08/09	06/07	07/08	08/09
0-10,000	2	2	2	14*	15*	27*
10,000-107,296	8	8	8	10*	10*	10*
107,296 +	21	19	19	21	19	19

FRIAA's goal is for 100% participation of medium and large member companies. FRIAA has effectively achieved this goal for medium and large-sized companies. Through the Open Funds Initiative, access to FRIP funds has been extended to non-members. This accomplishes the goal of expanding participation and access in the Forest Resource Improvement Program.

Effectively reforest cutover areas that are within the scope of the Community Reforestation Program

FRIAA has established a goal of effective reforestation in a manner that is consistent with the reforestation standards set out in the Timber Management Regulations and the Alberta Regeneration Survey Manual.

Results:

Subprogram	Harvested Area Within Program (Ha)	Area with Treatment Commenced (Ha)	Area Meeting Applicable Reforestation Standard (Ha)	Area with Outstanding Treatment Requirements (Ha)	Area that did not Meet Any Standard on Final Survey (Ha)
1994 - 2000	32,069	32,069	10,687	20,815	566
Post 2000	23,085	22,604	3,128	19,957	0
Total	55,154	54,673	13,815	40,772	566

FRIAA continues to reforest areas harvested after May 2000 through a well planned program linked to the Province's Community Reforestation Program. All areas are being treated in a manner that is consistent with the Timber Management Regulations and Alberta Regeneration Survey Manual. Initial reforestation treatment work on areas harvested prior to May 2000 was carried out with the funding transferred from the Province. FRIAA has carried out initial site preparation and planting work and the remaining funds are adequate to carry out establishment surveys for most of the areas. The level of funding is continuously monitored and FRIAA is taking steps to ensure sufficient funding is in place.

Goal two: To reduce the impact of wildfires on Alberta's Forests and Forest Sustainability

Deliver the Wildfire Reclamation Program in a Cost Efficient Manner

The Wildfire Reclamation Program is aimed at stabilizing sites and re-establishing forest cover in areas affected by fires. The delivery of the Wildfire Reclamation Program involves managing agreements with program participants and tracking activities on specified areas of the program. Cost efficiency is sought by ensuring appropriate use of funds towards the program's objective as well as minimizing overhead costs through efficient administrative policies and procedures.

WRP 1998 Grant Agreement		
WRP Facts	Program inception to date	
Total Seedlings Planted	41,210,834	Seedlings
Total Area Planted	25,271	Hectares
Total Area Assessed	32,658	Hectares

WRP 2007 Grant Agreement		
WRP Facts	Program inception to date	
Total Seedlings Planted	1,124,768	Seedlings
Total Area Planted	682	Hectares
Total Area Assessed	1,036	Hectares

The measure of performance towards this goal is to maintain a target administration/project expenditure ratio of five percent or less. The results indicate that FRIAA has been meeting and exceeding this expectation for the duration of the program with a ratio of management to direct operations costs over the lifetime of the program of 3.98% and 4.55% for the 1998 and 2006 agreements, respectively. In the future, FRIAA will continue to strive to achieve this target.

Goal three: To enhance Alberta's forests to support healthy ecosystems and fish and wildlife resources

Supporting FRIP projects that involve the full range of eligible enhancement activities

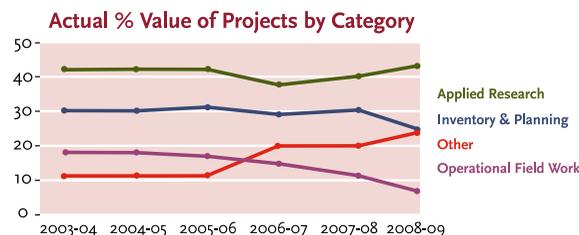
Different approaches for improving forest resources and the management of Alberta's forests fall into one of four categories. FRIAA will support projects across all of these categories.

The measurement of performance towards this goal is to be based on tracking projects within each category over time. The following results reflect active projects within the fiscal year.

Results:

Project Category	2008 - 2009 Actual (Percentage Share by Number of Projects)	2008 - 2009 Actual (Percentage Share by Value of Projects)
Operational Field Work	6	7
Inventory & Planning	24	25
Applied Research	39	43
Other	32	24

The percent value of the projects is significantly under the target range for operational field projects and over the target range for applied research and other projects. The fall in operational field projects was primarily offset by an increase in projects categorized as 'Other'. These miscellaneous projects include activities such as lake aerations, recreation area care, wildlife conservation and support for forest education for the general public. FRIAA will continue to monitor these trends and evaluate the impact, if any, on the program objectives.



Initiate reforestation activities under the Community Reforestation Program within two years after harvesting

FRIAA will manage its reforestation program in a manner that allows it to meet the Timber Management Regulation requirement of initiating reforestation activities on cutblocks within two years of harvesting.

Results:

FRIAA is developing and aggressively pursuing the goal of initiating reforestation treatments within 2 years of harvest on 100% of blocks harvested after May 30, 2000. As of March 31, 2009 all areas communicated to FRIAA immediately upon skid clearance have initially been treated within two years of harvest. FRIAA continues to work with the government on blocks that are communicated to FRIAA after the two year period has already passed or cannot be reasonably met. The timing of block information being passed on to FRIAA remains critical.

Goal four: To support a sustainable forest industry as responsible stewards

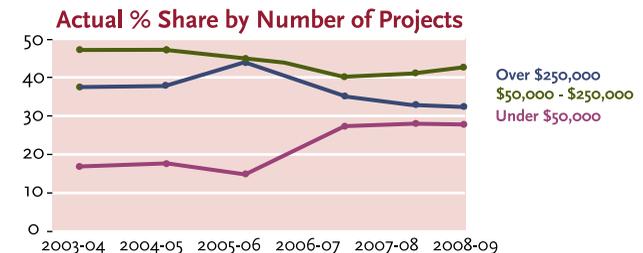
Encourage full and efficient use of FRIP funds

Full and efficient use of FRIP funds is promoted through the strategy of increasing participation levels as well as actively encouraging FRIP projects by making funds available for projects for 36-month periods of time after funds are contributed.

Results:

Project Size Category	2008 - 2009 Actual (Percentage Share by Number of Projects)	2008 - 2009 Actual (Percentage Share by Value of Projects)
Under \$50,000	32	4
\$50,000 - \$250,000	42	25
Over \$250,000	27	71
Total	100	100

FRIAA's performance measure is reviewed over time by monitoring the sizes of projects carried out and evaluating the consequences, if any, on the efficient use of funds. The distribution of project sizes has stabilized over the past three years, with participants favouring medium sized projects. With a decreasing FRIP fund and fewer opportunities for large operational projects, FRIAA expects more small and medium sized projects in the future. In the past, FRIAA had provided FRIP participants with a 36 month time frame during which they could utilize their contributed funds. After this three-year window has passed, such funds would normally have become available for projects as determined by the Board of Directors. In 2008/09, FRIAA rescinded this 36 month rule and now allows organizations an extended time frame before their funds expire. This action was taken in order to slow the depletion of the FRIP fund.



Goal five: To ensure full accountability to all Albertans

Effective Governance

FRIAA will fulfill its responsibility to deliver effective and efficient administration and to meet its obligations through sound corporate governance.

Results:

Legislative Requirements		
Requirement	Action	Status
Business Plan	A three year Business Plan indicating goals shall be provided to the Minister annually.	In Compliance
Annual Report	An Annual Report summarizing activities and containing financial statements shall be provided to the Minister.	In Compliance
FRIAA Dues	FRIAA dues shall be determined by FRIAA as per Regulation Section 5(1) and 5(1.1).	No changes in dues in 2008/09
Notice of Change of Bylaws	FRIAA shall give reasonable notice to the Minister of any bylaw or object changes.	No changes in bylaws in 2008/09
Expiry of Regulation	FRIAA shall work with the Minister to complete regulation review prior to expiry date.	Ongoing
Freedom of Information and Protection of Privacy Act Requests	FRIAA shall adhere to FOIPPA regulations.	In Compliance
Records Management System	FRIAA shall have a reliable records management system in place.	In Compliance
Program Reporting to the Minister	All forestry enhancement programs shall report to the Minister as per the grant agreement requirements.	In Compliance

Governance		
Requirement	Action	Status
Objects Review	Periodically, FRIAA will review the objects of FRIAA in order to ensure activities undertaken are within its objects.	In Compliance
Bylaws Review	Annually, FRIAA's bylaws shall be reviewed with the Board.	In Compliance
Director Requirements	In accordance with bylaws, Directors of the Board are to be elected or appointed. Indemnification of Directors is provided and reimbursement of the Directors expenses where the Board approves.	In Compliance
Directors' Meetings	Directors' meetings must be called as per bylaw requirements, and quorum must be a majority. Minutes must be in writing and approved by Directors.	In Compliance
Fees Levied and Debentures	Fees are to be levied in accordance with bylaws. Debentures are not to be provided without a special resolution of the Members.	In Compliance
Financial Accountability	FRIAA's financial records shall be audited annually and provided to all members in the Annual Report.	In Compliance
Annual General Meeting	FRIAA shall hold a meeting of all Members once each fiscal year. Quorum and voting to take place as per the bylaws.	In Compliance
Program Reporting to the Board	All forestry enhancement programs shall provide administration reports to the Board on a regular basis.	In Compliance
MOU Review	FRIAA will review the MOU with the Minister on an annual basis.	In Compliance

Ensure full accountability for FRIAA

FRIAA will develop a comprehensive accountability framework that ensures that it acts in accordance with its mandate and objectives. The accountability framework will govern FRIAA in a manner that ensures that its mandate is being fulfilled, its objectives are being pursued and that its members and Minister are well represented.

Results:

All policies and regulatory requirements have been reviewed in conjunction with a year-end accountability reporting process undertaken by the Board of FRIAA. FRIAA annually undertakes a detailed review of all policies, bylaws, and regulatory requirements to ensure that FRIAA is in compliance with its governance and accountability framework. This review is documented as an annual accountability report.

Communicating benefits

FRIAA's mandate focuses on benefits for Albertans through projects and initiatives. FRIAA strives to communicate these benefits to Albertans.

Results:

FRIAA has established a website and maintains communications information relevant to the administration of the Association and its programs.

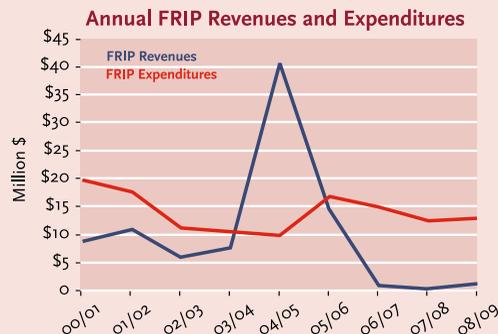
A newsletter is produced and distributed three times a year. The newsletter highlights key activities and points of concern to the membership, FRIAA dues remitters and other stakeholders. FRIAA will continue to seek input on its communications activities.

Policy	Status
Audit Committee Policy	<ul style="list-style-type: none"> ■ Approved August 26, 1997. ■ Audit Committee established August 26, 1997. Membership reviewed annually. ■ Audit Committee has met in accordance with the policy and reported against it regularly. ■ Audit for 2008/09 has been completed in accordance with the terms of the Policy and legislative requirements.
Conflict of Interest Policy	<ul style="list-style-type: none"> ■ Approved August 26, 1997. ■ Conflicts have been reported and recorded in accordance with the Policy.
Appeal Policy	<ul style="list-style-type: none"> ■ Approved January 19, 1998, as amended. ■ No appeals under the Policy have been initiated in 2008/09.
Fund Management Policy	<ul style="list-style-type: none"> ■ Fund Management Committee established November 17, 1997. ■ Statement of Investment Policies and Goals (FRIP) approved April 22, 1998 and amended December 4, 2006. ■ Statement of Investment Policies and Goals for the Community Reforestation Fund approved December 1, 2003 and amended December 4, 2006. ■ Monthly reports have been made by the investment managers to the Committee and Board in compliance with the policy and investment statement.
Open Funds Initiative	<ul style="list-style-type: none"> ■ Approved June 4, 2008. Reviewed annually.
Public-at-Large Director Selection Protocol	<ul style="list-style-type: none"> ■ Policy reviewed and confirmed October 2000. ■ Reviewed October 16, 2008.
Community Reforestation Program	<ul style="list-style-type: none"> ■ Approved and effective May 30, 2000. Reviewed on an ongoing basis.
Forest Resource Improvement Program Description and Guidelines	<ul style="list-style-type: none"> ■ Approved August 26, 1997, as amended, reviewed on an ongoing basis.
Annual Budgeting Protocol	<ul style="list-style-type: none"> ■ Compliance in 2008/09.
Annual Business Plan Review Process	<ul style="list-style-type: none"> ■ Compliance in 2008/09.

Financial Highlights

FRIAA's financial statements provide an overview of the funds and resources used to deliver its programs and initiatives. A few highlights of 2008/09 include:

- FRIAA dues receipts remained close to nil again this year as lumber prices remained very low. FRIP dues received were less than \$600,000 compared to a long term average of close to \$12 million.
- The FRIP fund was substantially reduced in size as FRIP project payments were significantly higher than revenues from all sources.
- A levelling off of the CRP fund as the number of permits and volume of timber managed under the Community Timber Program decreased while the implementation of reforestation treatments on past blocks carry on as planned.
- An administration cost ratio of 4.90% for FRIP in 2008-09. Since its inception, FRIP has maintained a low 4.51% average administration cost ratio.
- WRP had administration cost ratios of 3.98% and 4.55% for the 1998 and 2006 programs, respectively.
- An administration cost ratio of 12.71% for CRP in 2008-09 (11.70% inception to date), reflecting a reduction in the size of the program and increased complexity of coordinating the CRP.
- Careful planning and cash management strategies were established to ensure that the capital in the CRP and FRIP funds was preserved.



Auditors' Report

To the Members of the Forest Resource Improvement Association of Alberta

We have audited the statement of financial position of the Forest Resource Improvement Association of Alberta as at March 31, 2009 and the statements of revenues and expenditures, change in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2009 and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Edmonton, Alberta
May 27, 2009

Statement of Financial Position
March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 9,279,293	\$ 13,202,912
Restricted cash (Note 3)	9,429,341	9,487,877
Accounts receivable and accrued interest receivable	628,797	663,835
Investments	5,668,202	8,104,473
Inventory	33,617	143,736
Prepaid expenses	866	866
	25,040,116	31,603,699
Investments	48,119,968	58,947,207
	\$ 73,160,084	\$ 90,550,906

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,614,963	\$ 478,436
Net assets:		
Forest resource improvement program	41,465,050	56,707,308
Wildfire reclamation program (Note 3)	9,276,238	9,319,037
Community reforestation program (Note 4)	12,455,415	17,665,417
Incidental conifer program (Note 5)	1,619,941	2,180,635
Mountain pine beetle program (Note 6)	5,728,477	4,200,073
	70,545,121	90,072,470
	\$ 73,160,084	\$ 90,550,906

Commitments (note 9)

See accompanying notes to financial statements.

On behalf of the Board:



David Kiil
Director



Murray Summers
Director

Statement of Revenue and Expenditures

Year ended March 31, 2009, with comparative figures for 2008

	Wildfire reclamation program (Note 3)	Mountain pine beetle program (Note 6)	Incidental conifer program (Note 5)	Community reforestation program (Note 4)	Forest resource improvement program	2009 total	2008 total
Revenue:							
FRIAA Dues	\$ -	\$ -	\$ -	\$ -	\$ 594,173	\$ 594,173	\$ 89,269
Reforestation levies	-	-	-	2,254,707	-	2,254,707	2,264,240
Grants	730,272	5,000,000	-	-	-	5,730,272	11,474,995
	730,272	5,000,000	-	2,254,707	594,173	8,579,152	13,828,504
Expenditures:							
Accounting	25,318	32,527	10,159	84,052	67,839	219,895	222,380
Board meetings	434	217	-	724	760	2,135	476
Communication	9,131	20,261	919	42,481	31,900	104,692	122,593
Directors' expenses	1,054	527	-	1,757	1,735	5,073	6,816
Directors' honoraria (Note 10)	1,526	763	-	2,544	2,671	7,504	6,683
Field audits	19,659	-	-	36,495	22,260	78,414	54,744
Financial audit	7,485	2,511	837	6,377	22,896	40,106	22,694
Insurance	1,559	1,083	520	3,617	3,617	10,396	10,397
Management support	65,610	88,774	5,312	163,681	113,355	436,732	412,104
Member financial reports	-	40,100	-	-	48,981	89,081	9,693
Office and miscellaneous	422	211	149	894	1,097	2,773	1,291
Professional fees	19,926	15,859	381	55,146	49,837	141,149	223,345
Project expenditures	792,267	3,399,632	576,000	4,746,773	11,424,924	20,939,596	16,197,832
Project operations and monitoring costs	14,415	15,944	3,119	135,841	107,697	277,016	300,464
Project review and approval	16,340	15,490	446	157,786	118,982	309,044	297,020
	975,146	3,633,899	597,842	5,438,168	12,018,551	22,663,606	17,888,532
	(244,874)	1,366,101	(597,842)	(3,183,461)	(11,421,378)	(14,084,454)	(4,060,028)
Other income (expenses):							
Dividends	-	-	-	491,619	503,242	994,861	1,842,065
Interest	202,075	162,303	37,148	60,873	1,628,859	2,091,258	2,475,907
Loss on fair value of investments	-	-	-	(2,546,541)	(5,726,256)	(8,272,797)	(4,723,939)
Investment management fees	-	-	-	(32,492)	(223,725)	(256,217)	(353,821)
	202,075	162,303	37,148	(2,026,541)	(3,817,880)	(5,442,895)	(758,888)
Excess (deficiency) of revenues over expenditures	\$ (42,799)	\$ 1,528,404	\$ (560,694)	\$(5,210,002)	\$(15,242,258)	\$ (19,527,349)	\$ (4,818,916)

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended March 31, 2009, with comparative figures for 2008

	Wildfire reclamation program net assets (Note 3)	Mountain pine beetle program net assets (Note 6)	Incidental conifer program net assets (Note 5)	Community reforestation program net assets (Note 4)	Forest resource improvement program net assets	2009 Combined	2008 Combined
Net assets, beginning of year	\$ 9,319,037	\$ 4,200,073	\$ 2,180,635	\$ 17,665,417	\$ 56,707,308	\$ 90,072,470	\$ 94,891,386
(Deficiency) excess of revenues over expenditures	(42,799)	1,528,404	(560,694)	(5,210,002)	(15,242,258)	(19,527,349)	(4,818,916)
Net assets, end of year	\$ 9,276,238	\$ 5,728,477	\$ 1,619,941	\$ 12,455,415	\$ 41,465,050	\$ 70,545,121	\$ 90,072,470

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended March 31, 2009, with comparative figures for 2008

	2009	2008
Increase (decrease) in cash		
Operations		
(Deficiency) of revenues over expenditures	\$ (19,527,349)	\$ (4,818,916)
Non-cash items		
Loss on fair value of investments	8,272,797	4,723,059
	<u>(11,254,552)</u>	<u>(95,857)</u>
Change in non-cash operating working capital		
Accounts receivable and accrued interest receivable	35,038	2,329,258
Inventory	110,119	(5,854)
Accounts payable and accrued liabilities	2,136,527	(295,910)
	<u>(8,972,868)</u>	<u>1,931,637</u>
Investing		
Purchase of investments	(34,110,087)	(46,659,266)
Proceeds on sale and redemption of investments	39,100,800	56,515,027
	<u>4,990,713</u>	<u>9,855,761</u>
Net (decrease) increase in cash	(3,982,156)	11,787,398
Cash and cash equivalents		
Beginning of year	22,690,789	10,903,391
End of year	<u>\$ 18,708,633</u>	<u>\$ 22,690,789</u>
Supplemental cash flow information		
Cash is comprised of:		
Cash	\$ 9,279,293	\$ 13,202,912
Restricted cash (Note 3)	9,429,341	9,487,877
	<u>\$ 18,708,634</u>	<u>\$ 22,690,789</u>

See accompanying notes to financial statements.

Notes to Financial Statements

Year Ended March 31, 2009

1. Nature of operations

The Forest Resource Improvement Association of Alberta (the "Association") is incorporated under the Societies Act of Alberta and has a mandate under the Forest Resources Improvement Regulation pursuant to the Environmental Protection and Enhancement Act and the Forests Act to establish programs or initiatives to enhance forest resources of Alberta and the management thereof, improve the sustained yield of Alberta forest resources and to promote integrated resource management. The Association uses Forest Resource Improvement Association of Alberta dues to fund the Forest Resource Improvement Program, which is aimed at these objectives.

In 1998, per agreement with the Province of Alberta, the Association commenced administering the Reclamation of Cutblocks Destroyed by Wildfire Program (Note 3).

In 2000, per agreement with the Province of Alberta, the Association commenced administering the Community Reforestation Program (Note 4).

In 2005, per agreement with the Province of Alberta, the Association commenced administering the Incidental Conifer Program (Note 5).

In 2007, per agreement with the Province of Alberta, the Association commenced administering the Mountain Pine Beetle Program (Note 6).

The Association is a not-for-profit organization, and accordingly, no provision for corporate income taxes has been provided in these financial statements pursuant to Section 149(1)(l) of the Income Tax Act, Canada.

2. Summary of significant accounting policies

Revenue recognition

The Association earns dues and levies based on the timber sales of Alberta producers. Producers are required to report timber sales and related dues or levies by filing a timber return with the Association. Revenues are recognized using the accrual method when amounts are measurable and collection is reasonably assured. Dues and levies are based on the volume of timber produced and are legally owing to the Association when timber dues are owing to the Crown.

Grant revenue is recognized in the period to which it relates under the terms of agreement. Investment income is recorded in the period that it is earned.

The Association uses the restricted fund method of accounting.

Cash and cash equivalents

Cash includes cash on hand and balances with banks, net of outstanding cheques.

Inventory

Effective April 1, 2008, the Association adopted the recommendations of the CICA standards for Inventories, Section 3031. The Section requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost. Cost includes all cost of purchase and other costs incurred in bringing inventories to their present location and condition. The standards also requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The Association has determined that the impact of applying the new section on the financial statements is not material.

Inventory consists of seedlings purchased and held in storage and being grown in the nursery. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average cost method.

Investments

Long term Portfolio investments are accounted for based on their classification as held-for-trading assets and recorded at fair value. Changes in fair value are recognized in the statement of revenues and expenditures.

Use of estimates

In preparing the Association's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

Financial instruments

The Association's financial instruments consist of cash, accounts receivable and accrued interest receivable, investments and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values. Unless otherwise noted, it is management's opinion that the Association is not unduly exposed to significant interest, currency or credit risks from these financial instruments.

Additionally, the Association's earnings are exposed to minimal financial risk that arises from fluctuations in interest rates and the degree of volatility of these rates. The Association does not use derivative instruments to reduce its exposure to interest.

3. Reclamation of Cutblocks Destroyed by Wildfire Program (the "Wildfire Reclamation Program")

The Wildfire Reclamation Program was established on November 1, 1998 and amended on November 24, 2000 and February 15, 2006 by agreement between Her Majesty the Queen

in Right of Alberta as represented by the Minister of Environment (the "Province") and the Forest Resource Improvement Association of Alberta (the "Association"). The Wildfire Reclamation Program was established to encourage the reclamation of land disturbed or destroyed by wildfire and will be operated by the Association.

Under the terms of the agreement, the total grant amounts to \$35,000,000. The Association received \$10,000,000 from the Province in January, 1999, \$17,000,000 on May 12, 1999, \$4,000,000 on December 1, 2000, and \$4,000,000 on April 23, 2002. The agreement ("1998 Program") which was to expire on March 31, 2006 has been extended to March 31, 2012. Any unexpended funds plus earnings thereon at that time will be returned to the Province.

On July 3, 2007 the Association entered into a new grant agreement ("2006 Program") with the Province. Under the terms of the agreement the total grant amount of \$5,137,986 received in 2007 is to be used for the reclamation of 2006 and 2007 burned cutblocks. During the current year an Annual Grant amount of \$730,272 was received in accordance with the terms of this agreement to be used for the reclamation of 2008 burned cutblocks. The agreement expires on March 31, 2017 unless the term of the agreement is extended or renewed. The obligations of the parties continue for such period of time required to complete the work under the agreement which shall be no earlier than seven years past the end of the term. Any unused grant amount shall be returned to the Province, together with any interest or return earned from investment of the grant amount, seven years from the end of the term.

Restricted cash consists of funds that are restricted for use on the Wildfire Reclamation Program and held in a separate bank account.

4. Community Reforestation Program (the "Reforestation Program")

The Reforestation Program was established on May 1, 2000 by order in council amending the Timber Management Regulation pursuant to the Forest Act and the Forest Resource Improvement Regulation pursuant to the Environmental Protection and Enhancement Act. The Reforestation Program was established for reforestation of Crown lands subject to reforestation levies.

In implementing the program, the receipt of funds for the Reforestation Program has been delegated to the Association in two parts:

- a) Reforestation levies received and unexpended by the Province on areas cut under the authority of timber licenses and permits on or after May 1, 1994, but before May 30, 2000 are to be transferred to the Association according to section 143.91 of the Timber Management Regulation. The levies received during the year were \$8,946 (2008 - \$nil).
- b) The Association has the authority to collect reforestation levies on areas cut under the authority of timber licenses and permits on or after May 30, 2000. The levies received during the year were \$2,245,761 (2008 - \$2,116,902).

All reforestation levies and associated interest are to be used solely for the purpose of the Reforestation Program.

5. Incidental Conifer Program

The Incidental Conifer Program was established on March 31, 2005 by agreement between Her Majesty the Queen in Right of Alberta as represented by the Minister of Sustainable Resource Development (the "Minister") and the Forest Resource Improvement Association of Alberta (the "Association"). The Incidental Conifer Program was established to encourage the replacement of coniferous timber harvested as the result of and incidental to deciduous timber harvesting operations and will be operated by the Association.

Under the terms of the agreement, funding in the amount of \$2,786,484 was transferred by the Province to the Association on November 16, 2005 in respect of Work to be undertaken, under contracts, on lands set out in the Forest Management Agreement. Additional funds may be paid to the Association from time to time, representing amounts collected by the Minister for the purposes set out in the Agreement. In that event, the Association shall administer all additional funds provided in accordance with the terms of the Agreement. The term of the Agreement is from February 1, 2005 to March 31, 2010.

6. Mountain Pine Beetle Program

The Mountain Pine Beetle Program was established on July 5, 2007 by agreement between Her Majesty the Queen in Right of Alberta as represented by the Minister of Sustainable Resource Development (the "Minister") and the Forest Resource Improvement Association of Alberta (the "Association"). This Program was established because Mountain Pine Beetle infestations in Alberta reached epidemic proportions causing significant damage to Alberta's pine stands. Under the terms of the agreement the Department provides funding, in the form of a grant to be used to administer forest industry sector operators engaged to provide services, beyond tenured obligations, to control, suppress or eradicate the Mountain Pine Beetle.

Under the terms of the agreement \$5,000,000 was provided in 2007 as initial funding to initiate the Program and an additional \$5,000,000 was provided in April 2008. Annual grant amounts will be approved by the Department throughout the term of the Agreement which is April 1, 2007 to March 31, 2012 unless otherwise extended or renewed or terminated in accordance with the terms.

7. Capital disclosures

Effective April 1, 2008 the Association has adopted the new CICA handbook section 1535 "Capital Disclosures". This section establishes standards for disclosing information about

the Association's capital in order for a user of the financial statements to evaluate the Association's objectives, policies and processes for managing capital.

The Forest Resource Improvement Association of Alberta defines capital managed as the aggregate of net assets and debt. The Association's objectives when managing capital are to ensure that the Association will continue as a going concern, will sustain current and future operations and growth and will preserve the long term value of the Association.

8. Future Accounting policies

Financial instruments

Effective April 1, 2009 the Association will adopt CICA handbook section 3862, Financial Instruments - Disclosures, and CICA handbook section 3863, Financial Instruments - Presentation. Section 3862 replaces the disclosure requirements of the previous section 3861 Financial instruments - Disclosure and Presentation. The new section 3863 is consistent with the previous section 3861. The new standard places an increased emphasis on financial statement disclosures concerning risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

9. Commitments

As at March 31, 2009, the Association is committed to fund approved projects with various terms in the following amounts for each program:

	2009	2008
Forest Resource Improvement Program	\$19,055,212	\$20,293,459
Community Reforestation Program	616,586	1,459,012
Wildfire Reclamation Program	8,052,442	8,114,439
	\$27,724,240	\$29,866,910

In addition, subsequent to March 31 the Association has approved further projects in the following amounts for each program:

	2009	2008
Forest Resource Improvement Program	\$47,649	\$695,178
Community Reforestation Program	-	-
Wildfire Reclamation Program	-	-
	\$47,649	\$695,178

10. Directors' honoraria

As required under the Forest Resources Improvement Regulation, the remuneration and benefits paid to the members of the board of directors are as follows:

	2009	2008
James C. Bocking	\$2,746	\$3,007
A. David Kiil	2,953	2,129
Jurgen Moll	1,805	693
	\$7,504	\$5,829

11. Financial Instruments

Financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Financial instruments classified as held-for-trading will be measured at fair value with changes in fair value recognized in the statements of revenues and expenditures. Financial assets classified as held-to-maturity or as loans and receivables, or financial liabilities classified as other financial liabilities will be measured at amortized cost. Available-for-sale financial assets will be measured at fair values with changes in fair value being recognized directly in the statement of net assets.

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

	Classification	Measurement
Financial assets		
Cash	Held-for-trading	Fair value
Accounts receivable and accrued interest receivable	Loans & receivables	Amortized cost
Investments	Held-for-trading	Fair value
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Forest Resource Improvement Association of Alberta

Members

- Alberta Pacific Forest Industries Ltd.
- Alberta Plywood Ltd.
- ANC Timber Ltd.
- Askee Development Corporation
- Blue Ridge Lumber Inc.
- Boucher Bros. Lumber Ltd.
- Canadian Forest Products Ltd.
- Crowsnest Forest Products
- Daishowa-Marubeni International Ltd.
- Gordon Buchanan Enterprises Ltd.
- Hinton Wood Products Ltd.
- Koinonia Corporation
- Little Red River Forestry Ltd.
- Manning Diversified Forest Products
- Medicine Lodge Timber Products Ltd.
- Millar Western Forest Products Ltd.
- Northland Forest Products Ltd.
- Rocky Wood Preservers Ltd.
- SEEHTA Forest Products
- Slave Lake Pulp Corporation
- Spray Lakes Sawmills (1980) Ltd.
- Spruceland Millworks Inc.
- Sundance Forest Industries
- Sundre Forest Products Ltd.
- Tall Pine Timber Co. Ltd.
- Tolko Industries Ltd.
- Vanderwell Contractors (1971) Ltd.
- Weyerhaeuser Company Limited
- Zama Mills Ltd.
- Zavisha Sawmills Ltd.

