



Forest Resource Improvement Association of Alberta



2004-05

ANNUAL REPORT

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President's Message



The Forest Resource Improvement Association of Alberta (FRIAA) remains committed to delivering its core programs for the benefit of all Albertans and is excited at the prospect of embarking on new initiatives aimed at enhancing Alberta's forest resources. By building and maintaining strong relationships with the forestry community, working with the Minister of Sustainable Resource Development on new and innovative opportunities, and effectively administering current programs, FRIAA continues to be an important factor in the enhancement of Alberta's forest resources and in the improvement of the management of Alberta's forests.

FRIAA is committed to full accountability for its programs. It has processes and controls in place to ensure that it can demonstrate that it is responsible, responsive and effective. FRIAA places an emphasis on transparency in the delivery of its programs. Clear descriptions of its programs, practical guidelines for program participants, and regular reporting ensures that the organization and its programs remain fully transparent. FRIAA also exercises a decided focus on its objectives and mandate. FRIAA ensures that its objectives of improving Alberta's forest resources are always central to its decisions and actions. The

successful alignment of these strategies with its programs has made FRIAA a very successful organization and has enabled it to work constructively with the Minister, the forest industry and a wide range of stakeholders.

As successful as FRIAA is, the Board of Directors is continually looking for ways to improve the management of its programs, enhance its ability to achieve its objectives and advance new ideas and opportunities. Working with the Minister of Sustainable Resource Development, FRIAA has been able to identify funding to carry on with reforestation work on cutblocks harvested between the years 1994 and 2000. This is an important step towards sustaining the Community Timber Program throughout Alberta and supporting the smaller timber operators in the province. In addition to that, the Minister of Sustainable Resource Development is looking into funding for the reclamation of areas that were reforested but damaged or destroyed by wildfires. This is another example of FRIAA and its Minister working together to meet the mutual objectives of forest sustainability.

Serving as the President of FRIAA has been very rewarding and I am grateful for the opportunity to do so. I would like to thank the FRIAA members who demonstrate support for our objectives by participating in our programs and initiatives. I would also like to thank all those who play pivotal roles each day in delivering our numerous projects within the FRIP, CRP and WRP programs. With your commitment and hard work, we can help ensure that future Albertans can enjoy healthy forest resources.



TREVOR WAKELIN, PRESIDENT

FRIAA has made efforts throughout the year to ensure that its programs meet specific objectives stated for each initiative and to ensure that the delivery of these programs is effective. This effort is demonstrated in a number of ways.

Each year, FRIAA carries out a program review that allows the Board of Directors to reflect on the organization's programs and represents an opportunity for members and stakeholders to provide input. This year, FRIAA's program review resulted in some useful suggestions, including:

- Promoting more field operational projects within the FRIP program, such as stand tending and other similar activities that directly enhance forest resources.
- Continuing with the open funds initiative to encourage participation in the program.
- Continuing to pursue funding for the reforestation and/or reclamation of cutblocks.

In addition to the annual program review, FRIAA is conducting a strategic review of the Community Reforestation Program. This review is ongoing, and feedback received to this point indicates strong support for FRIAA administering this program. Other comments received from members and stakeholders indicates that the completion of reforestation treatments to achieve the performance survey standard on areas harvested between 1994 and 2000 is a priority.

FRIAA has also reviewed various parts of its FRIP program with a view to describing, in more detail, the good work conducted under this program. Many good news stories can be found within this program and FRIAA intends to increase communication in the future about such accomplishments as:

- Support for public education and awareness through FRIP.
- Extensive field operational work funded under FRIP.
- Support for applied research and new efforts to distribute results of this work.
- Promotion of integrated resource management initiatives and studies.

FRIAA Continually Looks for New and Expanded Ways to Benefit Albertans

Board of Directors

President:
Trevor Wakelin

Vice President:
James Bocking

Second Vice-President:
Doug Sklar

Treasurer:
Murray Summers

Directors:
Tom Hoffman
David Kiil
Bruce Macmillan



Committees and Panels

The Board establishes committees to manage specific board issues 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 at least 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 investment policies are observed.
- Assessing the performance of FRIAA's investment manager and the investment funds against specific targets and measurement criteria.

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 panels with specific mandates and whose members are not necessarily Board members. These are:

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 2004/05 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 included:

- David Kiil, Director of FRIAA (Public-At-Large Appointment), Former Director General of the Northern Forestry Research Centre.
- Jerry Bauer, Former General Manager of Canadian Forest Products in Grande Prairie, Alberta.
- Richard Rothwell, Professor emeritus, University of Alberta.
- 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.

Programs delivered by FRIAA include the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP) and the Wildfire Reclamation Program (WRP). 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. A number of key accomplishments over the past year have benefited Albertans:

a. 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 2004/2005, FRIAA conducted site preparation on over 1,900 hectares; planted over 4.9 million seedlings on 3,176 hectares; and performed establishment surveys on 4,710 hectares of Crown land. Of the 25,120 ha of total area surveyed to date, over 85% was determined to be satisfactorily restocked (SR) however much area remains to be treated and surveyed. To date, FRIAA has planted over 27 million seedlings on over 17,000 hectares of Crown land. These activities have amounted to an investment in excess of nearly \$25 million in Alberta's forest resource.

The CRP is separated into two different sub-programs. The subprogram related to blocks harvested between 1994 and 2000 is funded through transfers from government that represents

reforestation levies collected by government from timber harvested on those areas. A total of \$14 million has been transferred to FRIAA for the work on this area. Additional funds will be required to address the potential re-treatment and stand tending work

required to meet performance standards on these blocks.

The post-2000 program is funded through reforestation levies paid directly to FRIAA. FRIAA continues to use the reforestation levy rate initially set by government prior to the transfer of the CRP in 2000. FRIAA continually assesses treatment prescriptions, actual costs, and projected success rates to ensure that the rate reflects the costs of reforestation. While the actual costs under the program are consistent with expectations, the types of treatments carried out in southern Alberta are different than those projected and an adjustment to the southern levy rate may be considered as more information becomes available. In addition, the estimate of cubic metres produced per hectare is very difficult to track and a change to an area based levy rate is being investigated.

FRIAA continues to listen to stakeholders in the program and work with timber permit holders, service providers and government to improve the processes related to the collection of reforestation levies. An efficient and successful program of levy collection, silviculture planning, reforestation activities, and project

management has been developed and implemented for sustaining this important natural resource. FRIAA has embarked on a strategic review of the Community Reforestation Program and expects to be able to apply improvements once this is completed.

b. Expanding the Open Funds Initiative under the Forest Resource

Improvement Program—The first Open Funds Initiative was implemented in 2002-03 to expand participation and involvement under FRIP. Response to the Open Funds Initiative was significant and subsequent initiatives were implemented each year thereafter. In the summer of 2004, a call for proposals was released and a total of 48 proposals were submitted to the Open Funds Panel. These proposals addressed a wide range of topic areas and comprised nearly \$7.5 million of cumulative funding. Proposals were accepted in two categories—Province-wide proposals and Local proposals. The final selection of successful proposals consisted of fifteen projects adding up to just over \$2 million in funding.

Maintaining the success of the Wildfire Reclamation Program—All

eligible participants in this program have been actively engaged in wildfire reclamation work. Many of the activities are now focussed on the final stages of reforestation. Program activities have been enhanced with the approval of additional funds arising from earned interest income with the requirement that establishment regeneration surveys be completed on all areas under the program. As the Program enters its seventh season of operation, evidence of its significant success is visible on Alberta's forest landscape.

Program 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 its business plan for that year (2004/2005):

Business Plan Highlights

Goal one: Effective governance

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

Results:

Requirements	Results	Date
Bylaws	Reviewed for compliance	Ongoing
Organizational objects	Reviewed for compliance	Ongoing
Societies Act requirements	Reviewed for compliance	Ongoing
Annual filings	Filed	Annually
Audited financial statements	Prepared and released	By AGM June, 2005
Annual report	Prepared and released	By AGM June, 2005
Board and committee membership	Reviewed for compliance	Ongoing
Communications to the Minister	General updates, provision of policies, business plan, annual report and audited financial statements	Ongoing and as required
Other policies and procedures	Reviewed for compliance	Ongoing and as required

Goal two: 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 have been reviewed in conjunction with a year-end accountability reporting process undertaken by the Board of FRIAA.

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 2004/05 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. Reviewed on an ongoing basis
Appeal Policy	<ul style="list-style-type: none"> • Approved January 19, 1998, as amended • No appeals under the Policy have been initiated in 2004/05
Fund Management Policy	<ul style="list-style-type: none"> • Fund Management Committee established November 17, 1997 • Statement of Investment Policies and Goals approved April 22, 1998 and amended December 1, 2003 • Statement of Investment Policies and Goals for the Community Reforestation Fund approved December 1, 2003 • Monthly reports have been made by the investment managers to the Committee and Board in compliance with the policy and investment statement
Public-at-Large Director Selection Protocol	<ul style="list-style-type: none"> • Policy reviewed and confirmed October 2000 • Reviewed as required
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 2004/05
Annual Business Plan Review Process	<ul style="list-style-type: none"> • Compliance in 2004/05

Goal three: 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:

Participant Size	Number of Members					Number of FRIP Project Participants				
(m ³ /year)	00/01	01/02	02/03	03/04	04/05	00/01	01/02	02/03	03/04	04/05
0-10,000	1	1	2	2	2	9*	10*	12*	14*	15*
10,000-107,296	8	8	8	8	8	10*	9*	11*	10*	9*
107,296 +	21	21	21	21	21	21	20	20	21	21

*Includes non-member participants

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 has allowed FRIAA to meet its goal of expanding access to and participation in the Forest Resource Improvement Program.

Goal four: 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	Planning Estimate (% Share)	2003-2004 Actual (% Share)	2004-2005 Actual (% Share)
Under \$50,000	25	37	37
\$50,000 - \$250,000	50	45	45
Over \$250,000	25	18	18
Total	100	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. Over the past year, the distribution of project sizes has not changed from the previous year and continues to favour mid-sized and smaller-sized projects. In 2004/2005 there were no individuals or companies that were approaching a situation where FRIP funds were at risk of not being utilized within three years of the

contribution date (compared to over \$128 million contributed since September 1997). Once the three-year window has passed, such funds become available for projects as determined by the Board. FRIAA will continue to encourage the use of these funds in the future through program awareness, promotion of joint funding efforts, and open funds initiatives. In the coming year FRIAA will again work towards reducing the number of companies not participating in FRIP projects.

Goal five: 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	Number of Projects (Baseline %)	Value of Projects (Target %)	Number of Projects (Actual %)	Value of Projects (Actual %)
Operational Field Work	25	20-40	16	18
Inventory & Planning	30	20-40	30	30
Applied Research	35	20-40	39	41
Other	10	5-15	15	11

The percent value of the projects is close to the target range for all four categories. The number of Operational Field Work projects is becoming smaller than that of the baseline and is just below the low end of the target range for value of projects. Applied Research projects are

becoming greater in number than the baseline and are just over the high end of the target range for value of projects. FRIAA will continue to monitor these trends and evaluate the impact, if any, on the program objectives.

Goal six: 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 Facts	Program inception to date	
Total Seedlings Planted	39,213,925	Seedlings
Total Area Planted	23,824	Hectares
Total Area Assessed	32,498	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 administration costs to direct operations costs over the lifetime of the program of 2.2%. In the future, FRIAA will continue to strive to maintain low administrative expenses balanced with effective program results.

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

FRIAA has recently 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.

Program Highlights to Date / Seedlings Planted			
2000/01	5,903,472	2003/04	4,784,461
2001/02	6,391,660	2004/05	4,943,165
2002/03	5,368,909	Total	27,391,667

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*. For areas harvested prior to May 2000, initial reforestation treatment work was carried out with 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 these areas. The current level of funding for areas harvested prior to May 2000 is identified as insufficient to complete the reforestation treatment to performance standards for these areas.



Goal eight: 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. While it is still early in the process, as of May 30, 2005 all areas communicated to FRIAA immediately upon skid clearance that are within the program have been, or will be, initially 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 at a time that results in this objective not being reasonably met. The timing of block information being passed on to FRIAA remains critical, and FRIAA will take steps to help ensure it obtains timely information.

Goal nine: 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 also 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. In order to solicit specific comments about its programs and performance from members and stakeholders, FRIAA conducts annual program reviews. FRIAA will continue to seek input on its communications activities.

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 2004/05 include:

- A large and unexpected amount of FRIAA dues were received in 2004-2005 as lumber markets were stronger throughout the year than in past years resulting in higher FRIAA dues rates.
- An increase in the FRIP fund was experienced as FRIAA dues received were much greater than expenditures for FRIP projects.
- A levelling off of the CRP fund as the number of permits and volume of timber managed under the Community Timber Program decreases. Reforestation treatments on past blocks are carrying on as planned.
- An overall ratio of administration costs to direct operations costs of 7.23% across all programs (5.79% FRIP, 10.56% CRP and 5.64% WRP).

To the Members of Forest Resource Improvement Association of Alberta

We have audited the statement of financial position of Forest Resource Improvement Association of Alberta as at March 31, 2005 and the statements of revenues and expenditures, 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.

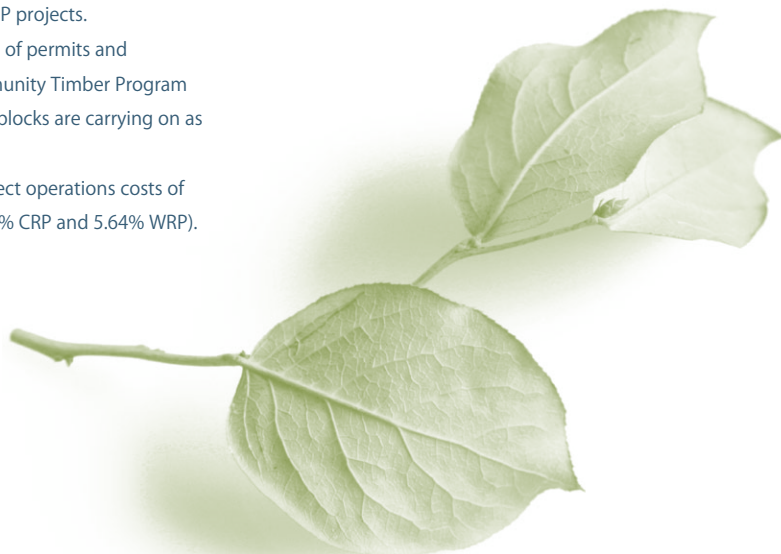
Auditors' Report

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, 2005 and the results of its operations 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, Canada
May 12, 2005



Statement of Financial Position
March 31, 2005, with comparative figures for 2004

	2005	2004
Assets		
Current Assets:		
Cash	\$ 22,502,619	\$ 10,470,127
Restricted cash (note 3)	7,122,012	9,015,028
Accounts receivable and accrued interest receivable	3,166,302	2,794,426
Inventory	77,103	148,421
Prepaid expenses	6,422	6,422
	32,874,458	22,434,424
Computer equipment, at cost less accumulated amortization of \$8,542; (2004-\$1324)	8,921	6,242
Investments, at cost (Fair market value - \$68,936,135; 2004 - \$45,433,241)	64,672,874	42,692,472
	\$ 97,556,253	\$ 65,133,138

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,567,796	\$ 1,576,760
Net assets:		
Invested in computer equipment	8,921	6,242
Forest resource improvement program	72,188,146	40,071,695
Wildfire reclamation program (note 3)	7,112,395	8,720,155
Community reforestation program (note 4)	14,678,995	14,758,286
	93,988,457	63,556,378

Commitments (note 5)

	\$ 97,556,253	\$ 65,133,138
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See accompanying notes to financial statements.

On behalf of the Board:



David Kiil
Director



Murray Summers
Director

Statement of Revenues and Expenditures
Year ended March 31, 2005, with comparative figures for 2004

	Wildfire reclamation program (note 3)	Community reforestation program (note 4)	Forest resource improvement program	2005 total	2004 total
Revenue					
FRIAA dues	\$ -	\$ -	\$ 40,517,245	\$ 40,517,245	\$ 7,676,242
Reforestation levies	-	4,955,126	-	4,955,126	9,310,888
	-	4,955,126	40,517,245	45,472,371	16,987,130
Expenses					
Accounting	16,114	51,307	58,930	126,351	114,184
Amortization	-	3,525	3,693	7,218	1,324
Communication	9,315	31,994	28,764	70,073	80,090
Directors' expenses	843	1,592	2,966	5,401	7,133
Directors' honoraria	1,056	2,111	4,503	7,670	8,436
Field audits	8,591	37,019	79,829	125,439	105,325
Financial audit	4,280	4,800	5,564	14,644	11,879
Insurance	1,011	2,023	2,024	5,058	4,988
Management support	14,506	99,136	60,704	174,346	141,059
Meetings	148	277	297	722	1,656
Office and miscellaneous	-	381	191	572	7,459
Member financial reports	-	-	63,946	63,946	87,824
Professional fees	22,865	55,742	68,795	147,402	107,356
Project expenditures	1,673,962	4,863,667	9,941,065	16,478,694	17,488,827
Project operations and monitoring costs	9,546	169,052	76,451	255,049	264,894
Project review, approval and planning	11,765	115,033	154,330	281,128	333,949
	1,774,002	5,437,659	10,552,052	17,763,713	18,766,383
	(1,774,002)	(482,533)	29,965,193	27,708,658	(1,779,253)
Other income (expenses)					
Interest	166,242	198,161	1,746,163	2,110,566	1,961,073
Dividends	-	221,371	185,921	407,292	155,119
Gain on sale of investments	-	7,382	407,763	415,145	507,370
Investment management fees	-	(22,416)	(187,055)	(209,471)	(174,418)
Foreign exchange loss	-	-	(111)	(111)	(23,917)
	166,242	404,498	2,152,681	2,723,421	2,425,227
Excess (deficiency) of revenues over expenditures	\$ (1,607,760)	\$ (78,035)	\$ 32,117,874	\$ 30,432,079	\$ 645,974

See accompanying notes to financial statements.

Statement of Net Assets

Year ended March 31, 2005, with comparative figures for 2004

	Net assets invested in computer equipment	Wildfire reclamation program net assets (note 3)	Community reforestation program net assets (note 4)	Forest resource improvement program net assets	2005 Combined	2004 Combined
Net assets, beginning of year	\$ 6,242	\$ 8,720,155	\$ 14,758,286	\$ 40,071,695	\$ 63,556,378	\$ 62,910,404
Excess of revenues over expenses	-	(1,607,760)	(78,035)	32,117,874	30,432,079	645,974
Amortization	(7,218)	-	3,525	3,693	-	-
Investment in capital assets	9,897	-	(4,781)	(5,116)	-	-
Net assets, end of year	\$ 8,921	\$ 7,112,395	\$ 14,678,995	\$ 72,188,146	\$ 93,988,457	\$ 63,556,378

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2005, with comparative figures for 2004

	2005	2004
Increase (decrease) in cash and cash equivalents		
Operations		
Excess of revenue over expenditure	\$ 30,432,079	\$ 645,974
Non-cash items		
Amortization	7,218	1,324
Gain on sale of investments	(415,145)	(507,370)
Foreign exchange loss	111	23,917
	30,024,263	163,845
Change in non-cash operating working capital		
Accounts receivable and accrued interest receivable	(371,876)	(686,195)
Inventory	71,318	116,916
Prepays	-	(6,071)
Accounts payable and accrued liabilities	1,991,036	(114,119)
	31,714,741	(525,624)
Investing		
Purchase of capital assets	(9,897)	(7,566)
Purchase of investments	(135,814,005)	(52,550,288)
Proceeds on sale and redemption of investments	114,248,637	49,219,239
	(21,575,265)	(3,338,615)
Net increase (decrease) in cash	10,139,476	(3,864,239)
Cash and cash equivalents		
Beginning of year	19,485,155	23,349,394
End of year	\$ 29,624,631	\$ 19,485,155
Supplemental cash flow information		
Cash and cash equivalents are comprised of:		
Cash	\$ 22,502,619	\$ 10,470,127
Restricted cash	7,122,012	9,015,028
	\$ 29,624,631	\$ 19,485,155

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 2005

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).

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 on the accrual method. Timber production is subsequently reviewed by Alberta Sustainable Resource Development. The Association may revise revenue owing based on the review performed by Alberta Sustainable Resource Development. Any amendments arising from this review are recorded by the Association as adjustments to revenue in the period in which the amendments are made. The revenues represent management's best estimate; however, due to the inherent uncertainties in the industry reporting, there may be adjustments in future periods and such adjustments may be material to the financial position of the Association.

Grant revenue has been recognized as earned under the terms of agreement. Investment income is recorded in the period that it accrues.

The Association uses the restricted fund method of accounting.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and short-term investments with original maturities of three months or less.

Inventory

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.

Long-term investments

Long term portfolio investments are recorded at cost. If management determines there is a loss in value other than a temporary decline then the investment will be written down to market value.

Amortization

Rates and bases of amortization applied to write-off the cost less estimated salvage value of computer equipment over its estimated lives are as follows:

Computer hardware	30%, declining balance
Computer software	100%, declining balance

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 revenue and expenses 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. Unless otherwise noted, it is management's opinion that the Association is not unduly exposed to significant interest, currency or credit risks arising from these financial instruments and the fair values of these financial instruments approximate their carrying values.

The Association has cash and investments that are denominated in a foreign currency and is therefore exposed to minimal currency risk. Additionally, the Association's earnings are exposed to minimal financial risk that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. The Association does not use derivative instruments to reduce its exposure to interest and foreign currency risk.

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 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 and \$4,000,000 on December 1, 2000. The fourth instalment of \$4,000,000 was received on April 23, 2002. The agreement expires March 31, 2006 and any unexpended funds plus earnings thereon at that time will be returned to the Province.

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 \$nil (2004 - \$2,179,748).
- 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 \$4,955,126 (2004 - \$7,131,140).

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

5. Commitments

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

	2005	2004
Forest Resource Improvement Program	\$ 21,720,446	\$ 16,039,113
Community Reforestation Program	378,994	509,109
Wildfire Reclamation Program	6,016,027	7,689,989
	\$ 28,115,467	\$ 24,238,211

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

	2005	2004
Forest Resource Improvement Program	\$ 764,605	\$ 772,427
Community Reforestation Program	694,629	3,759
	\$ 1,459,234	\$ 776,186

6. 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:

	2005	2004
James C. Bocking	\$ 2,505	\$ 2,783
Donald H. Fregren	-	2,446
A. David Kiil	2,772	3,095
	\$ 5,277	\$ 8,324

Forest Resource Improvement Association of Alberta Members

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



