



Forest Resource Improvement Association of Alberta





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President's Message

As FRIAA enters its second decade of service to the Alberta public, a number of challenges and opportunities lie ahead. The outstanding accomplishments of FRIAA's four forestry improvement programs—the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP), the Wildfire Reclamation Program (WRP) and the Incidental




Conifer Program (ICP)—have established FRIAA as a key organization in pursuing the Minister of Sustainable Resource Development's objectives. Based on this success, the Minister has delegated a portion of the department's Mountain Pine Beetle Program to FRIAA, representing its fifth program. The Minister has also renewed the Wildfire Reclamation Program for a further 10 years.

While FRIAA is pleased to serve Albertans by delivering five forestry enhancement programs, it is mindful of its cornerstone program—FRIP. Through FRIP, FRIAA has provided over \$170 million to worthwhile projects that improve forests, promote enhanced forest management, improve the sustainability of Alberta's forest resources and promote integrated forest management. The program has been highly successful by addressing forestry challenges identified by a wide range of stakeholders including government agencies, forest products companies, colleges and universities, research organizations, consultants, community groups and not-for-profit organizations. The sustainability of this key program however is uncertain as FRIP dues have been reduced to almost zero and project activity continues on committed projects. Without some action that increases or replaces the flow of money to the FRIP fund, the program will continue to shrink and eventually terminate. The Board of Directors is actively reviewing the situation and evaluating alternatives to preserve this important program.

The Community Reforestation Program is another key program of FRIAA's. This program is critical to the long term sustainability of the Community Timber Program administered by Sustainable Resource Development across Alberta. Through this program, FRIAA has planted over 36 million seedlings on nearly 23,000 hectares of Crown forest. This key program is also under pressure as reforestation levies have not increased since the year 2000 which is making it very difficult for FRIAA to balance increasing costs with a static level of funding. The Board of Directors is also reviewing this program and evaluating alternatives to bring revenues and expenditures back into balance.

The Mountain Pine Beetle and Wildfire Reclamation programs are proving to be critical components in sustaining the productivity of Alberta's forests. The MPB program has helped to slow the spread of this potentially devastating pest. Funding managed by FRIAA has allowed government and industry to undertake critical detection and control efforts, such as aerial surveys, single tree control, pheromone baiting and log yard management. Wildfires in Alberta also cause significant damage to forest lands that had previously been reforested by the Crown and forest industry. By providing funds to restore these cutblocks, the Wildfire Reclamation Program will help ensure that they grow into fully productive forests.

Looking ahead, there continues to be many opportunities to provide further benefits to Albertans. FRIAA's proven track record in sound governance, accountability and efficient administration make this organization an attractive means to deliver funded programs aimed at the improvement and enhancement of Alberta's forests. Other opportunities for FRIAA to serve Albertans are being investigated and as always, FRIAA is committed to sustaining its key core programs that are so important to our members and the public.



Trevor Wakelin, President

FRIAA Continues to Support Albertans by Delivering New and Expanded Forestry Enhancement Programs

FRIAA regularly communicates with its members, the Minister of Sustainable Resource Development (the “Minister”) and stakeholders to understand their interests and to ensure that FRIAA is serving their needs. Based on these discussions, it became clear that the most significant concerns were controlling the Mountain Pine Beetle infestation in Alberta and dealing with sustainability of Alberta’s forest resources in light of catastrophic events such as wildfire.

In response to these priorities and concerns, FRIAA worked with the Minister to establish the Mountain Pine Beetle Program and renew the Wildfire Reclamation Program. The Mountain Pine Beetle Program is a cooperative effort between FRIAA and the department in support of activities designed to control or mitigate the impacts of Mountain Pine Beetle and to distribute funds to maximize the effectiveness of these efforts. Through close communication with government and industry, accurate data is being gathered about the spread of the Beetles, and steps are being taken to ensure that the Beetles aren’t being inadvertently spread by the movement of lumber out of affected areas. These initiatives, along with the deployment of various containment practices have helped to slow the advance of the Beetles and is a key program in the battle against the Beetle.

The Wildfire Reclamation Program renewal includes some key attributes that make this program even more effective than in the past. Funding has been increased and the new agreement requires participants to manage the cutblocks to a performance survey standard.

Each year, FRIAA carries out a business planning and annual reporting exercise to ensure that we fulfill our purpose and that we support the Minister. Our business plan clearly indicates that FRIAA supports the Minister by aligning programs and initiatives with both the Provincial and Sustainable Resource Development’s (SRD) goals and objectives, specifically:

- **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 #3**- Alberta’s forests and forest landscapes support healthy ecosystems and vibrant communities.
- **SRD Goal #4**- Alberta’s fish and wildlife resources and their habitats are healthy, productive and sustainable.

The relationship between FRIAA and the Minister is strong and results in many excellent projects and initiatives that improve and enhance forest resources for Albertans. This follows the strong and productive relationships that FRIAA has with the forestry community. The subsequent information provided in this report demonstrates that FRIAA builds on these strong relationships and is active, effective and accountable in fulfilling its mandate.

Board of Directors

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

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 investment policy is 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 2007/08 year. The Panel's responsibilities included:

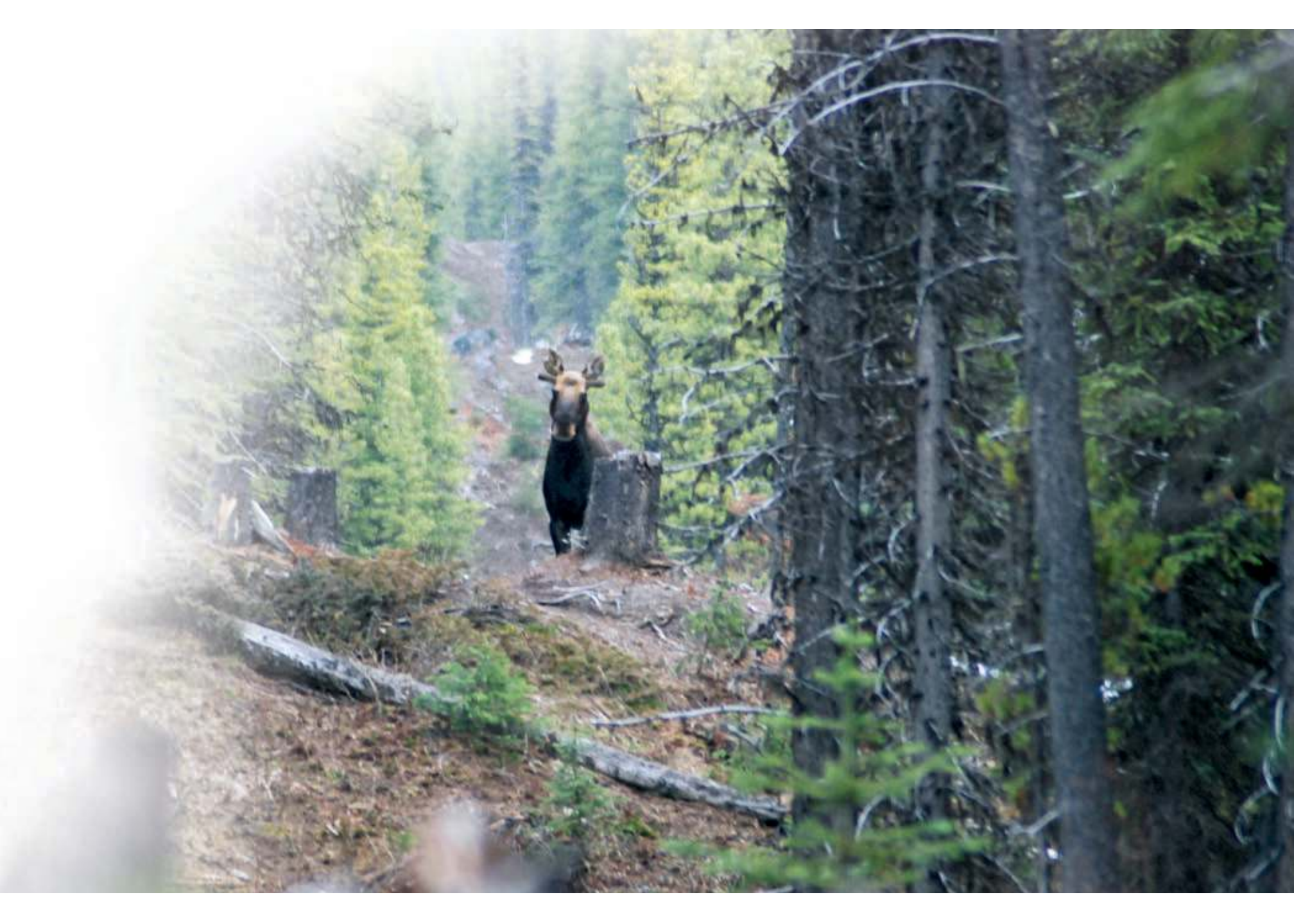
- Development of a project proposal evaluation and selection process that is transparent, equitable, and accountable.
- Selection and recommendation of project proposals that meet criteria established by the Board of Directors and that best represents the interests of FRIAA.

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.
- Chris Anderson, Former Senior Manager with Canadian Forest Products Ltd.
- 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 2007/08 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 \$10.6 million spent on FRIP projects over the year. In addition, there is \$20.5 million committed to ongoing FRIP projects as of March 31, 2008.

Response to FRIAA's Open Funds Initiative was also strong. In the summer of 2007, a call for proposals was released and a total of 40 proposals were submitted to the Open Funds Panel. These proposals addressed a wide range of topic areas and comprised \$6.9 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 12 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 the responsibility for reforesting cutblocks harvested after May 2000 as well as continuing the government's reforestation activities on older cutblocks harvested prior to May 2000. In 2007/2008, 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.

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

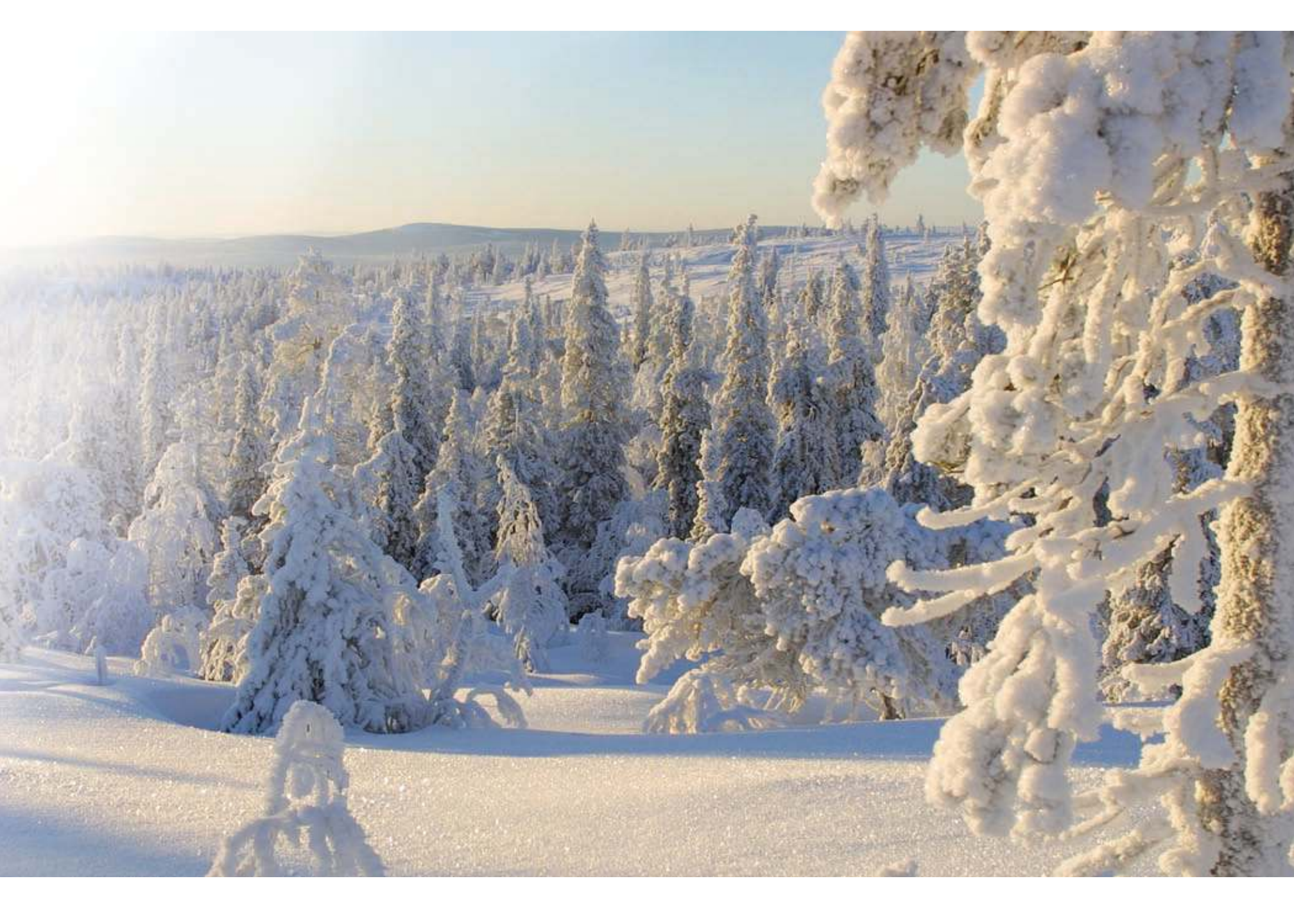
All eligible participants in the 1998 program have been actively engaged in wildfire reclamation work. Many of the activities are now focussed on the final stages of successful reforestation. Program activities have been enhanced with an emphasis being placed on the completion of establishment regeneration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

In addition to managing the 1998 WRP program in its late stage of implementation, a renewal of the program on July 5, 2007 will result in the retreatment of almost 3000 hectares of reforested cutblocks damaged or destroyed by wildfires in 2006 and 2007.

d. Implementing the Mountain Pine Beetle Program (MPBP)

On July 5, 2007 the MPB program was established to deal with the effects of the Mountain Pine Beetle invasion during 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.

Program funding comes directly from Sustainable Resources Development to FRIAA to distribute. To date, the program has distributed over seven hundred thousand dollars, and has received applications for over a million more - the amount of activity thus far this year is more than double the activity rates in the 07/08 reporting year.



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 current business plan submitted to the Minister on February 27, 2007:

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 |
| <i>Societies Act</i> | Reviewed for compliance | Ongoing |
| Annual filings | Filed | Annually |
| Audited financial statements | Prepared and released | AGM 2008 |
| Annual report | Prepared and released | AGM 2008 |
| 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 | Annually |

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 the 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 Directors. 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 report.

| 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 2007/08 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 2007/08. |
| 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 February 15, 2006. ■ Statement of Investment Policies and Goals for the Community Reforestation Fund approved December 1, 2003 and amended February 15, 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 Policy | <ul style="list-style-type: none"> ■ Approved June 21, 2007. Reviewed annually. |
| Public-at-Large Director Selection Protocol | <ul style="list-style-type: none"> ■ Policy reviewed and confirmed October 2000. ■ Reviewed October 5, 2005. |
| 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 2007/08. |
| Annual Business Plan Review Process | <ul style="list-style-type: none"> ■ Compliance in 2007/08. |

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 (m ³ /year) | Number of Members | | | Number of FRIP Project Participants | | |
|--|-------------------|-------|-------|-------------------------------------|-------|-------|
| | 05/06 | 06/07 | 07/08 | 05/06 | 06/07 | 07/08 |
| 0-10,000 | 2 | 2 | 2 | 12* | 14* | 15* |
| 10,000-107,296 | 8 | 8 | 8 | 11* | 10* | 10* |
| 107,296 + | 21 | 21 | 19 | 20 | 21 | 19 |

*Includes non-member participants

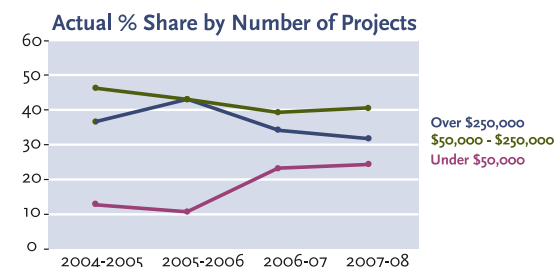
FRIAA's goal is for 100% participation of medium and large member companies. FRIAA has effectively achieved this goal for medium and large-sized companies. Through the Open Funds Initiative, access to FRIP funds has been extended to non-members. This accomplishes the goal of expanding participation and access 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 | 2007/08 Actual (Percentage Share by Number of Projects) | 2007/08 Actual (Percentage Share by Value of Projects) |
|-----------------------|---|--|
| Under \$50,000 | 33 | 5 |
| \$50,000 - \$250,000 | 40 | 24 |
| 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. Over the past year, the distribution of project sizes has stabilized after two years of shifting toward smaller 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 2007/08 there was \$1,058,053 identified as not being utilized within three years of the contribution date (compared to over \$144 million contributed since September 1997). Once the three-year window has passed, such funds normally become available for projects as determined by the Board of Directors.

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

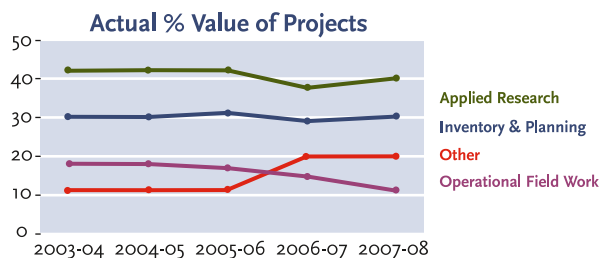
Different approaches for improving forest resources and the management of Alberta's forests fall into one of four categories. FRIAA will support projects across all of these categories.

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 | 2007-08 Actual (Percentage Share by Number of Projects) | 2007-08 Actual (Percentage Share by Value of Projects) |
|------------------------|---|--|
| Operational Field Work | 8 | 12 |
| Inventory & Planning | 30 | 30 |
| Applied Research | 34 | 39 |
| Other | 28 | 19 |

The percent value of the projects is under the target range for operational field projects and over the target range for applied research projects. The relative proportion of projects has stabilized over the past year after two years of decreasing numbers of operational field projects and increasing applied research 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 | 41,210,834 | Seedlings |
| Total Area Planted | 25,271 | Hectares |
| Total Area Assessed | 32,658 | 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 3.44%. In the future, FRIAA will continue to strive to achieve this target.

Goal seven: 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) |
|-------------|------------------------------------|------------------------------------|---|---|
| 1994 - 2000 | 32,057 | 32,057 | 9,591 | 22,465 |
| Post 2000 | 23,809 | 18,307 | 2,407 | 21,402 |
| Total | 55,865 | 50,364 | 11,999 | 43,867 |

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 completed initial reforestation treatments and establishment surveys. The remaining funds will be used for stand tending and performance surveys. The level of funding is continuously monitored and FRIAA is taking steps to ensure sufficient funding is in place.

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 March 31, 2007 all areas communicated to FRIAA immediately upon skid clearance that are within the program have been initially treated within two years of harvest.

FRIAA continues to work with the department 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 provided by the department to FRIAA remains critical.

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:

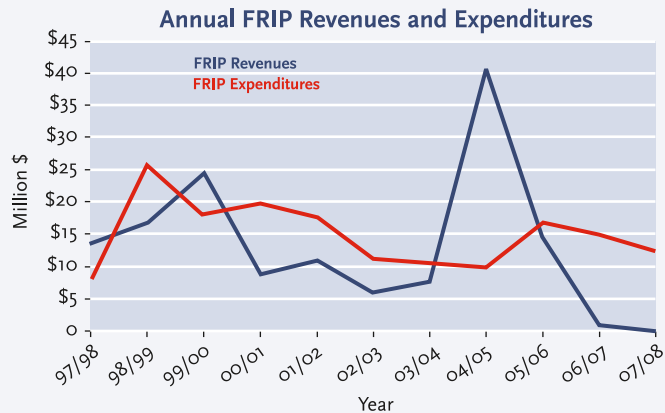
FRIAA has established a website and maintains communications information relevant to the administration of the Association and its programs. Abstracts have been prepared for applied research projects and will be available on the website.

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. 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 2007/08 include:

- FRIAA dues receipts remained close to nil again this year as lumber prices remained very low and the Canada dollar continued to appreciate relative to the U.S. dollar. FRIP dues received were less than \$100,000 compared to a long term average of close to \$14 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 4.94% for FRIP in 2007-08 (4.42% inception to date) and 1.80% for WRP in 2007-08 (3.44% inception to date).
- An administration cost ratio of 14.45% for CRP in 2007-08 (12.10% inception to date), reflecting a reduction in the size of the program and increased complexity of coordinating the CRP.



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, 2008 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, 2008 and the results of its operations, change in 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 30, 2008

Statement of Financial Position
March 31, 2008, with comparative figures for 2007

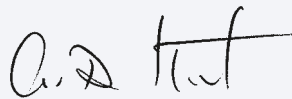
| | 2008 | 2007 |
|---|---------------|---------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 13,202,912 | \$ 6,290,989 |
| Restricted cash (Note 3) | 9,487,877 | 4,612,402 |
| Accounts receivable and accrued interest receivable | 663,835 | 2,993,093 |
| Investments (Note 7) | 8,104,473 | 11,906,390 |
| Inventory | 143,736 | 137,882 |
| Prepaid expenses | 866 | 866 |
| | 31,603,699 | 25,941,622 |
| Investments | 58,947,207 | 63,180,110 |
| | \$ 90,550,906 | \$ 89,121,732 |

Liabilities and Net Assets

| | | |
|--|---------------|---------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 478,436 | \$ 774,346 |
| Net assets: | | |
| Forest resource improvement program | 56,707,308 | 63,775,980 |
| Wildfire reclamation program (Note 3) | 9,319,037 | 4,564,864 |
| Community reforestation program (Note 4) | 17,665,417 | 17,723,627 |
| Incidental conifer program (Note 5) | 2,180,635 | 2,282,915 |
| Mountain pine beetle program (Note 6) | 4,200,073 | - |
| | 90,072,470 | 88,347,386 |
| Commitments (note 10) | \$ 90,550,906 | \$ 89,121,732 |

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, 2008, with comparative figures for 2007

| | 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 | 2008 total | 2007 total |
|---|--|---|--|---|--|----------------|----------------|
| Revenue: | | | | | | | |
| FRIAA Dues | \$ - | \$ - | \$ - | \$ - | \$ 89,269 | \$ 89,269 | \$ 840,681 |
| Reforestation levies | - | - | - | 2,264,240 | - | 2,264,240 | 3,609,353 |
| Grants | 5,137,986 | 5,000,000 | - | 1,337,009 | - | 11,474,995 | 1,500,000 |
| | 5,137,986 | 5,000,000 | - | 3,601,249 | 89,269 | 13,828,504 | 5,950,034 |
| Expenditures: | | | | | | | |
| Accounting | 24,615 | 22,420 | 7,153 | 76,904 | 91,288 | 222,380 | 216,619 |
| Amortization | - | - | - | - | - | - | 1,702 |
| Board meetings | 97 | - | - | 185 | 194 | 476 | 3,835 |
| Communication | 16,447 | 15,241 | 1,264 | 67,531 | 22,110 | 122,593 | 115,461 |
| Directors' expenses | 1,565 | 1,028 | - | 1,995 | 2,228 | 6,816 | 3,244 |
| Directors' honoraria (Note 11) | 1,472 | 906 | - | 2,164 | 2,141 | 6,683 | 5,878 |
| Field audits | - | - | - | 31,088 | 23,656 | 54,744 | 145,888 |
| Financial audit | 6,647 | - | - | 6,030 | 10,017 | 22,694 | 22,816 |
| Insurance | 1,559 | 910 | 520 | 3,704 | 3,704 | 10,397 | 9,951 |
| Management support | 83,862 | 85,427 | 897 | 119,273 | 122,645 | 412,104 | 380,297 |
| Member financial reports | - | - | - | - | 9,693 | 9,693 | 51,509 |
| Office and miscellaneous | 170 | 212 | - | 635 | 274 | 1,291 | 4,551 |
| Professional fees | 35,108 | 33,970 | 1,405 | 64,518 | 88,344 | 223,345 | 84,429 |
| Project expenditures | 413,258 | 691,206 | 177,843 | 4,052,850 | 10,862,675 | 16,197,832 | 19,229,151 |
| Project operations and monitoring costs | 15,057 | 12,377 | 2,100 | 122,521 | 148,409 | 300,464 | 227,195 |
| Project review and approval | 16,395 | 12,648 | 3,368 | 141,245 | 123,364 | 297,020 | 363,395 |
| | 616,252 | 876,345 | 194,550 | 4,690,643 | 11,510,742 | 17,888,532 | 20,865,921 |
| | 4,521,734 | 4,123,655 | (194,550) | (1,089,394) | (11,421,473) | (4,060,028) | (14,915,887) |
| Other income (expenses): | | | | | | | |
| Dividends | - | - | - | 998,363 | 843,702 | 1,842,065 | 979,221 |
| Interest | 232,439 | 76,418 | 92,270 | 173,670 | 1,901,110 | 2,475,907 | 3,126,752 |
| Gain on sale of investments | - | - | - | - | - | - | 3,111,130 |
| Loss on fair value of investments | - | - | - | (1,601,846) | (3,121,193) | (4,723,039) | - |
| Investment management fees | - | - | - | - | (353,821) | (353,821) | (339,728) |
| | 232,439 | 76,418 | 92,270 | (429,813) | (730,202) | (758,888) | 6,877,375 |
| Excess (deficiency) of revenues over expenditures | \$ 4,754,173 | \$ 4,200,073 | \$ (102,280) | \$(1,519,207) | \$(12,151,675) | \$ (4,818,916) | \$ (8,038,512) |

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended March 31, 2008, with comparative figures for 2007

| | 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 | 2008 Combined | 2007 Combined |
|---|--|---|--|---|--|------------------|------------------|
| Net assets, beginning of year | \$ 4,564,864 | \$ - | \$ 2,282,915 | \$ 17,722,774 | \$ 63,776,833 | \$ 88,347,386 | \$ 96,385,898 |
| Change in accounting policy (Note 8) | - | - | - | 1,461,850 | 5,082,150 | 6,544,000 | - |
| As restated | 4,564,864 | - | 2,282,915 | 19,184,624 | 68,858,983 | 94,891,386 # | 96,385,898 |
| (Deficiency) excess of revenues over expenditures | 4,754,173 | 4,200,073 | (102,280) | (1,519,207) | (12,151,675) | (4,818,916) | (8,038,512) |
| Net assets, end of year | \$ 9,319,037 | \$ 4,200,073 | \$ 2,180,635 | \$ 17,665,417 | \$ 56,707,308 | \$ 90,072,470 # | \$ 88,347,386 |

See accompanying notes to financial statements.



Statement of Cash Flows

Year Ended March 31, 2008, with comparative figures for 2007

| | 2008 | 2007 |
|---|----------------|----------------|
| Increase (decrease) in cash | | |
| Operations | | |
| (Deficiency) excess of revenue over expenditure | \$ (4,818,916) | \$ (8,038,512) |
| Non-cash items | | |
| Amortization | - | 1,702 |
| Gain on sale of investments | - | (3,111,130) |
| Foreign exchange loss | 4,723,059 | - |
| | (95,857) | (11,147,940) |
| Change in non-cash operating working capital | | |
| Accounts receivable and accrued interest receivable | 2,329,258 | 690,614 |
| Inventory | 2,329,258 | 85,598 |
| Prepays | - | (444) |
| Accounts payable and accrued liabilities | (295,910) | (2,419,581) |
| | 1,931,637 | (12,791,753) |
| Investing | | |
| Purchase of investments | (46,659,266) | (94,866,634) |
| Proceeds on sale and redemption of investments | 56,515,027 | 107,459,274 |
| | 9,855,761 | 12,592,640 |
| Net (decrease) increase in cash | 11,787,398 | (199,113) |
| Cash and cash equivalents | | |
| Beginning of year | 10,903,391 | 11,102,504 |
| End of year | \$ 22,690,789 | \$ 10,903,391 |
| Supplemental cash flow information | | |
| Cash is comprised of: | | |
| Cash | \$ 13,202,912 | \$ 6,290,989 |
| Restricted cash (Note 3) | 9,487,877 | 4,612,402 |
| | \$ 22,690,789 | \$ 10,903,391 |

See accompanying notes to financial statements.

Notes to Financial Statements

Year Ended March 31, 2008

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. 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

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. In 2007 investments were recorded at cost (see Note 8).

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 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, and \$4,000,000 on December 1, 2000 and \$4,000,000 April 23, 2002. The agreement 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.

During the current year, the Association entered into an additional grant agreement with the Province. Under the terms of this agreement, the total grant amount is \$5,137,986 to be used for the reclamation of 2006 and 2007 burned cutblocks. Funding under the agreement

expires on March 31, 2017 unless the terms of the agreement are 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 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 \$nil (2007 - 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 \$2,116,902 (2007 - \$2,128,869).

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 is 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 have reached epidemic proportions and are 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 as initial funding to initiate the Program. 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. Investments

| | 2008 | 2007 |
|---|---------------|---------------|
| Marketable securities, cost - \$66,552,902, market value at March 31, 2007 was \$81,630,500 | \$ 67,051,680 | \$ 75,086,500 |
| | \$ 67,051,680 | \$ 78,086,500 |

8. Change in Accounting Policy

Effective April 1, 2007, the Association adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments - Recognition and Measurement, and Section 3861 - Financial Instruments - Disclosure and Presentation. The application of these standards had a significant impact on the Association's financial position and the results of operations in the current period presented in the increase in net assets resulting from the change to measuring and recording investments at fair value.

Under the new standards, 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, their characteristics and the Association's designation of such instruments. 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 changes in net assets.

As at March 31, 2008 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 |

The impact resulting from adoption of these accounting policies on April 1, 2007 was an increase in April 1, 2007 investments and net assets of \$6,544,000 resulting from changing the measurement of investments to fair value. The effect of the change for the year ended March 31, 2008 was to reduce the investment balance and increase the loss on fair value of investments expense by \$5,601,667.

9. Future accounting changes

Capital disclosures

In November 2006, CICA Handbook Section 1535, Capital Disclosures was issued. This standard requires the disclosure of both qualitative and quantitative information that enables financial statement users to evaluate the objectives, policies and processes for managing capital. This new standard will be implemented by the Association effective April 1, 2008. Management expects this standard will only enhance current disclosures in the notes to the financial statements.

Inventories

During fiscal 2007, CICA Handbook Section 3031, Inventories was issued. This section relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. Management does not expect this standard to have a significant impact on the financial statements.

Financial Instruments

During fiscal 2007, CICA Handbook Section 3862, Financial Instruments – Disclosures and

CICA Handbook Section 3863, Financial Instruments – Presentation were issued, which replace CICA Handbook Section 3861 Financial Instruments – Presentation and Disclosure. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. The new presentation standard carries forward the former presentation requirements.

10. Commitments

As at March 31, 2008, the Association is committed to fund approved projects with various terms in the following amounts for each program:

| | 2008 | 2007 |
|-------------------------------------|----------------------|----------------------|
| Forest Resource Improvement Program | \$ 20,293,459 | \$ 25,811,742 |
| Community Reforestation Program | 1,459,012 | 133,278 |
| Wildfire Reclamation Program | 8,114,439 | 3,389,711 |
| | <u>\$ 29,866,910</u> | <u>\$ 29,334,731</u> |

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

| | 2008 | 2007 |
|-------------------------------------|-------------------|-------------------|
| Forest Resource Improvement Program | \$ 695,178 | \$ 788,326 |
| Community Reforestation Program | - | 193,239 |
| | <u>\$ 695,178</u> | <u>\$ 981,565</u> |

11. 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:

| | 2008 | 2007 |
|------------------|-----------------|-----------------|
| James C. Bocking | \$ 3,007 | \$ 2,325 |
| A. David Kiil | 2,129 | 2,172 |
| Jurgen Moll | 693 | - |
| | <u>\$ 5,829</u> | <u>\$ 4,497</u> |

12. Comparative figures

Certain prior year figures have been reclassified to conform to the current year's presentation.

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.
- 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.



