



# Forest Resource Improvement Association of Alberta







# Table of Contents

|  |    |
|--|----|
| President's Message  | 2  |
| FRIAA Supports Public Goals and Objectives   | 3  |
| Board of Directors   | 4  |
| Committees and Panels  | 4  |
| Audit Committee  | 4  |
| Fund Management Committee  | 4  |
| FHRFH Program's Project Evaluation Panel   | 4  |
| Appeals Panel  | 4  |
| FRIP Fund Management Committee   | 4  |
| Program Highlights   | 6  |
| Business Plan Highlights   | 8  |
| Goal One: To contribute to the health, productivity,<br>and sustainability of Alberta's forests              | 8  |
| Goal Two: To reduce the impact of wildfires on<br>Alberta's forests and forest sustainability                | 9  |
| Goal Three: To enhance Alberta's forests to support<br>healthy ecosystems and fish and wildlife<br>resources | 9  |
| Goal Four: To support a sustainable forest industry<br>as responsible stewards                               | 10 |
| Goal Five: To ensure full accountability to all Albertans  | 11 |
| Financial Highlights and Auditor's Report  | 13 |
| Financial Statements and Notes   | 14 |
| FRIAA Members  | 21 |

# President's Message

The 2010–11 fiscal year has been especially challenging for the forestry sector. While global economic activity has improved compared to recessionary levels, activity in the forestry sector has not followed. Ongoing softness in the U.S. housing market continues to stifle demand for lumber and building products, and a strong Canadian dollar creates competitive challenges for Alberta's export industries. During this period of reduced economic output,



Forest Resource Improvement Association of Alberta (FRIAA) has continued to deliver its core programs while expanding its offerings to further support important work aimed at enhancing forest resources. Courtesy of the foresight of its members, partners, and affiliates, FRIAA has worked to combat the spread of mountain pine beetle, improve the health of forests, and provide opportunities for forestry workers to contribute to forest enhancement activities during these difficult economic times.

In addition to its core programs, FRIAA helped reduce impacts to Alberta's forest resources from mountain pine beetle infestation and catastrophic wildfires. Much as in 2009, we have been very active in delivering the Mountain Pine Beetle Program (MPBP) to support industry's involvement in beetle detection and control. Throughout 2010, FRIAA has supported significant control activities to reduce the spread of the beetle along the leading edge in Alberta. In addition, the Fire Hazard

Reduction and Forest Health Program successfully funded 92 projects between 2009 and 2011, which further reduced the threat of wildfire in the province. Alberta Sustainable Resource Development (SRD) and Western Economic Diversification also gave \$28.28 million in funding to this short-term program—funding that helped sustain these important activities during the economic recession. By March 31, 2011, nearly 2,500 person-months of employment was created and over 8,000 hectares of forest was treated in Alberta.

While demand in the global marketplace is starting to improve, Forest Resource Improvement Program (FRIP) dues remain close to zero, reflecting low prices for lumber across North America. Although there has been a mild increase in lumber prices in 2010–11, only small operators paying a fixed rate have contributed to the fund. Our revenues have been approximately 3% of the long-term average. The fund cannot be sustained without increasing revenue. In 2010,

a key focus was to significantly reduce project expenditures, to modify policies that promote FRIP projects, and to suspend the Open Funds Initiative; our continued focus going forward is to work with our partners and the Government of Alberta (GoA) to ensure the long-term sustainability of this program by exploring innovative strategies to sustain program revenues.

In the Community Reforestation Program (CRP), FRIAA continues to collect levies owing in order to fund reforestation of logged areas to sustain community timber programs and avoid rate increases. FRIAA has focused on collecting past-due reforestation levies to ensure all operators who log public timber contribute their fair share to the reforestation of cutblocks. We've been very successful in completing reforestation on all blocks harvested prior to the year 2000, and we see this as both a major accomplishment and a fine example of government and industry working together towards sustainability objectives. We continue to remain current on all reforestation treatments of areas logged after 2000 under the GoA's Community Timber Program. The problem caused by the gap between revenues from reforestation levies and costs incurred to remain current on reforestation treatments has not been completely solved, but it is being addressed through new reforestation planning approaches and improvements to levy collections.

By March 31, the CRP Enhancement Program and the Forestry Workers Employment Program both came to a close, and we were very pleased with the results. Both programs channelled funding into older cutblocks to improve growth and productivity of young forests while providing employment opportunities for silviculture workers in Alberta.

FRIAA continues to serve its members by delivering effective programs that conserve, protect, and enhance Alberta's forest resources. Our Board of Directors places a priority on rigorous oversight, careful financial management, and strict quality control of all FRIAA's programs and initiatives. I am pleased to present this annual report to our members and to the Minister of SRD to outline our performance for the year.

A handwritten signature in black ink, appearing to read 'Trevor Wakelin'. The signature is fluid and cursive, written over a white background.

**Trevor Wakelin, President**



# FRIAA Supports Public Goals and Objectives

Forest Resource Improvement Association of Alberta (FRIAA) works closely with the Minister of Alberta Sustainable Resource Development (SRD) to support the Government of Alberta's objectives of enhancing Alberta's forests and improving the management of forest resources. In the past year, this level of collaboration was elevated to another level as new programs and initiatives were added. FRIAA's business plan outlines FRIAA support for the Minister and his department by matching programs and initiatives to the Government of Alberta's goals and objectives:

- **Government of Alberta Strategic Business Plan (2011–14) Goal #1** – Alberta's energy resources are developed responsibly, in an environmentally sustainable way.
- **SRD Business Plan (2011–14) Goal #1** – Alberta's public lands, forests, fish, and wildlife are managed to provide economic benefits.
- **SRD Business Plan (2011–14) Goal #2** – Alberta's public lands, forests, fish, and wildlife are managed to provide biodiversity benefits.
- **SRD Business Plan (2011–14) Goal #3** – Alberta's public lands, forests, fish, and wildlife enrich Albertans' quality of life.

In 2010–11, FRIAA continued to demonstrate success with its core forestry enhancement programs. The Forest Resource Improvement Program, Community Reforestation Program, Wildfire Reclamation Program, and Mountain Pine Beetle Program continue to draw on the support and involvement of industry to enhance forest resources. FRIAA expanded its service to members and the Minister by building new working relationships with Alberta Employment and Immigration (AEI) and Western Economic Diversification Canada (WD). Agreements with these departments further protect and enhance forest resources in Alberta.

The Fire Hazard Reduction and Forest Health Program is a unique program jointly funded by Alberta SRD and WD. It is designed to maintain and enhance Alberta's forest resource through activities that reduce fire hazards, protect communities and forest values, and maintain forest health. This initiative aligns with SRD's FireSmart and forest health programs and supports WD's objectives of mitigating hardships experienced in resource-dependent communities. With \$28.28 million in funding allocated to this program, much work is being done by Albertans to protect and conserve our forests.

The Forestry Workers Employment Program is another unique program aimed at using underemployed workers and tree nursery capacity to enhance the growth and development of young forests in Alberta. It is aimed at planting seedlings and tending plantations in areas that would otherwise be left untreated. Through these efforts, FRIAA is contributing to expanding the productive forests area in Alberta. With \$6 million in funding allocated to this program, many Albertans are able to participate in forestry enhancement projects.

## Board of Directors

- |   |   |
|---|---|
| ■ President:<br>Trevor Wakelin              | ■ Treasurer:<br>Murray Summers              |
| ■ Vice-President:<br>James Bocking          | ■ Directors:<br>Jurgen Moll<br>Dwight Weeks |
| ■ Second Vice-President:<br>Bruce Macmillan | ■ Directors:<br>David Kiil<br>Bruce Mayer   |

# 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.

## **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
- David Kiil
- Murray Summers

## **Fund Management Committee**

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

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

Members of this committee are:

- James Bocking
- David Kiil
- Murray Summers

In addition to the two standing committees described above, FRIAA also establishes specific committees with specific mandates, when required, including the Fire Hazard Reduction and Forest Health (FHRFH) Project Evaluation Panel, Forest Resource Improvement Program (FRIP) Appeal Panel, and FRIP Fund Initiative Committee.

## **FHRFH Program's Project Evaluation Panel**

The FHRFH Program Project Evaluation Panel was established by the Board to review, evaluate, and make recommendations on funding projects submitted under the FHRFH Program in the 2010–11 year. The panel's responsibilities included:

- Developing a project proposal evaluation and selection process that is transparent, equitable, and accountable
  - Selecting and recommending project proposals that meet criteria established by the Board and that best represent the interests of FRIAA and the funding organizations
- Members of this panel were selected based on their significant experience and unbiased position towards proposal evaluations. The members were selected from FRIAA's Board of Directors, SRD, WD, and the public at large:

- David Kiil, Director of FRIAA
- Hugh Boyd, Director of Wildfire Prevention, SRD
- Sharon Jackson, Director, WD
- Cliff Henderson, public member

## **Appeal Panel**

An appeal 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 2010–11; therefore, no appeal panel was struck.

## **FRIP Fund Initiative Committee**

The FRIP Fund Initiative Committee was established at the end of the fiscal year to review new opportunities to make FRIP funds available for worthy projects.







# Program Highlights

FRIAA delivers eight programs:

- 1) **Forest Resource Improvement Program (FRIP)**
- 2) **Community Reforestation Program (CRP)**
- 3) **Wildfire Reclamation Program (WRP)**
- 4) **Incidental Conifer Program (ICP)**
- 5) **Mountain Pine Beetle Program (MPBP)**
- 6) **Fire Hazard Reduction and Forest Health (FHRFH) Program**
- 7) **Forestry Workers Employment Program (FWEP)**
- 8) **CRP Enhancement Program**

All eight programs are aimed at improving the forests of Alberta and enhancing the management of Alberta's forests for the benefit of all Albertans. The key accomplishments in the administration of FRIAA's programs are as follows:

## 1) **Maintaining the Forest Resource Improvement Program (FRIP)**

The FRIP continued to deliver project activities in spite of historic low levels of FRIP dues. FRIP dues revenue was just over \$16,500 for the year, substantially lower than the long-term average of \$13 million before the industry's downturn. FRIP project expenditures also decreased substantially from the long-term average, with less than \$3.5 million spent on FRIP projects over the year. In addition, \$9.9 million is committed to ongoing FRIP projects as at March 31, 2011.

Since the inception of FRIAA in 1997, over \$170 million has been contributed to forestry projects that enhance Alberta's forests and improve the management of Alberta's forest resources.

## 2) **Continually improving the Community Reforestation Program (CRP)**

In 2000, the CRP was transferred from the Government of Alberta (GoA) to FRIAA. The program included responsibility for reforesting cutblocks harvested after May 2000, as well as continuing government's reforestation activities on older cutblocks harvested before May 2000. In 2009–10, FRIAA continued to make good progress on both parts of FRIP.

The CRP subprogram that is related to blocks harvested between 1994 and 2000 is funded by GoA transfers—reforestation levies collected by the GoA from timber permit and

licence holders that harvested timber on those areas. Treatments on these blocks are now complete, and the reforestation surveys should be completed within the next two years.

The CRP subprogram that is related to blocks harvested after May 30, 2000, is funded by reforestation levies paid directly to FRIAA. FRIAA has continued to use the GoA's reforestation levy rate that was established in 2000; however, this static levy rate, coupled with inflationary pressures on costs, is causing concern about the balance between program operational objectives and funding pressures. FRIAA continues to work with the GoA on solutions to address this gap.

Collecting reforestation levies from disposition holders has been difficult for FRIAA because levies are assessed on the volume of timber harvested—information outside of FRIAA control. FRIAA has actively addressed revenue collection issues by improving access to volume information for operators that are required to pay reforestation levies and by using legal means to collect past-due reforestation levies.

## 3) **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 activities now focus on the final stages of successful reforestation. Other WRP activities now emphasize the completion of establishment regeneration surveys to provide performance measures for the program.

In addition to managing the 1998 WRP program in its late stage of implementation, a second grant agreement that was signed on July 3, 2007, has thus far resulted in the retreatment of over 3,345 hectares of reforested cutblocks damaged or destroyed by wildfires from 2006 to 2011.

## 4) **Expanding the Mountain Pine Beetle Program (MPBP)**

On April 1, 2007, the MPBP was established to deal with the effects of the mountain pine beetle infestation in the summer of 2006. The program's primary focus is monitoring the movements of the mountain pine beetle through ground and aerial surveys, as well as containment efforts to keep the beetle from spreading.

The Ministry of Sustainable Resource Development sends funds directly to FRIAA for delivery of the MPBP. To date, the program has distributed over \$13.3 million, and as at



March 31, 2011, another \$3.18 million has been committed to ongoing projects.

**5) Extending the Incidental Conifer Program (ICP)**

The ICP program was scheduled to expire March 31, 2010. Not all funding was used by eligible participants by that date, so the Minister of SRD has decided to extend the program until March 31, 2012.

**6) Successfully implementing the Fire Hazard Reduction and Forest Health (FHRFH) Program**

The FHRFH Program has been very active over the year. With funding provided by the provincial and federal governments, FRIAA has approved and completed 92 projects worth \$27.1 million. These projects created over 2,493 person-months of employment, sustaining numerous businesses, and directly impacted over 8,100 hectares of forested land.

At the end of the fiscal year, FRIAA prepared to commit another \$170,000 to projects that further enhance Alberta's forests and generate benefits to communities impacted by the economic downturn.

**7) Completing the Forestry Workers Employment Program (FWEP)**

The FWEP has also been active by channelling funds into planting and stand tending across the province. In 2010–11, over \$3.2 million worth of planting and stand-tending projects resulted in 10,897 person-days of employment. All of the work greatly enhances the quality and value of Alberta's forests, and the impacts can be seen throughout the province.

**8) Completing the CRP Enhancement Program**

The CRP Enhancement Program successfully funded additional silviculture work on cutblocks previously treated under the CRP, as funding is embedded in the regular CRP. This program was aimed primarily at stand-tending work on cutblocks harvested before the year 2000. With funding from Western Diversification, over \$6.25 million was spent on activities that both enhanced timber resources throughout 6,462 hectares of land in Alberta and provided 17,266 person-days of employment to silviculture workers in Alberta.



# Business Plan Highlights

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

The following describes FRIAA's performance over the past year relative to the April 1, 2010 to March 31, 2013 business plan, which was submitted to the Minister of SRD on February 28, 2010.

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

### Optimize active participation in the Forest Resource Improvement Program

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

Results:

*\*Includes non-member participants*

| Size of Participating company<br>(m <sup>3</sup> /year) | Number of members |       |       | Number of FRIP project participants |       |       |
|---|-------------------|-------|-------|-------------------------------------|-------|-------|
|   | 08-09             | 09-10 | 10-11 | 08-09                               | 09-10 | 10-11 |
| 0-10,000  | 2                 | 0     | 0     | 27*                                 | 25*   | 17*   |
| 10,000-107,296  | 8                 | 6     | 5     | 10*                                 | 9*    | 7*    |
| 107,296+  | 19                | 17    | 17    | 19                                  | 17    | 17    |

FRIAA's goal is for 100% participation of medium and large member companies. FRIAA is no longer achieving this goal because of the declining FRIP fund and fewer opportunities for members and other stakeholders to participate in the program.

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

*FRIAA will effectively reforest 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 where treatment commenced (ha) | Area meeting applicable reforestation standard (ha) | Area with outstanding treatment requirements (ha) | Area that met no standard on final survey (ha) |
|------------|------------------------------------|-------------------------------------|---|---|--|
| 1994-2000  | 31,437                             | 31,437                              | 20,897  | 9,527   | 1,013  |
| Post-2000  | 27,185                             | 24,853                              | 3,451   | 23,734  | 0  |
| Total      | 58,622                             | 56,290                              | 24,348  | 33,261  | 1,013  |

FRIAA continues to reforest areas harvested after May 2000 through a well-planned program linked to the Government of Alberta'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 Government of Alberta. FRIAA has carried out initial site preparation and planting work, and the remaining funds are adequate to carry out establishment surveys for most areas. The level of funding is continuously monitored, and FRIAA is taking steps to ensure sufficient funding is in place.

## Goal two: To reduce the impact of wildfires on Alberta's forests and forest sustainability

### Deliver the Wildfire Reclamation Program in a cost-efficient manner

The Wildfire Reclamation Program (WRP) is aimed at stabilizing sites and re-establishing forest cover in areas affected by fires. Delivery of the WRP 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 objectives as well as minimizing overhead costs through efficient administrative policies and procedures.

| WRP 1998 grant agreement |                           |           |
|--------------------------|---------------------------|-----------|
| WRP facts                | Program inception to date |           |
| Total seedlings planted  | 41,263,139                | Seedlings |
| Total area planted       | 25,307                    | Hectares  |
| Total area assessed      | 50,215                    | Hectares  |

| WRP 2007 grant agreement |                           |           |
|--------------------------|---------------------------|-----------|
| WRP facts                | Program inception to date |           |
| Total seedlings planted  | 5,956,490                 | Seedlings |
| Total area planted       | 3,345                     | Hectares  |
| Total area assessed      | 2,429                     | Hectares  |

Our performance measure for this goal is to maintain a target administration/project expenditure ratio of 5% or less. FRIAA has either met or exceeded this target by achieving a 3.5% ratio of management to direct operations costs throughout the program. FRIAA will continue to strive to achieve this target in future.

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

### Support 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.

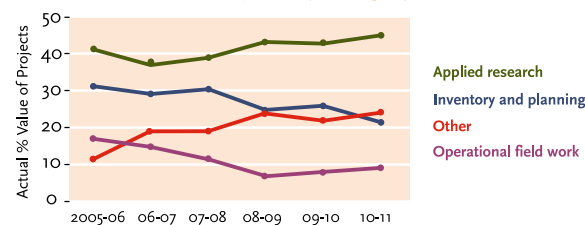
Performance of this goal is measured by tracking projects within each category over time. The following results reflect active projects within the fiscal year.

#### Results:

| Project category       | 2010-11 actual<br>(Percentage share by<br>number of projects) | 2010-11 actual<br>(Percentage share by<br>value of projects) |
|------------------------|---|--|
| Operational field work | 8   | 9  |
| Inventory and planning | 23  | 22   |
| Applied research       | 38  | 45   |
| Other                  | 31  | 24   |

The percentage value of the projects is significantly below the target range for operational field projects and above the target range for applied research and other projects. The decrease in "Operational" field projects was primarily offset by an increase in projects categorized as "Other," which include lake aerations, recreation area care, wildlife conservation, and support for forest education for the general public. FRIAA will continue to monitor these trends and evaluate the impact, if any, on the program objectives. There seems to be a gradual increase over time in work for forest health and public health and awareness projects.

Actual % Value of Projects by Category





**Initiate reforestation activities under the Community Reforestation Program within two years of 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 aggressively pursues a goal of initiating reforestation treatments within two years of harvest on all blocks harvested after May 30, 2000. Exceptions to this timing, which are uncommon, usually relate to a delay in the transfer of harvest information from government to service providers. FRIAA is continuing to work with both parties to eliminate all exceptions.

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

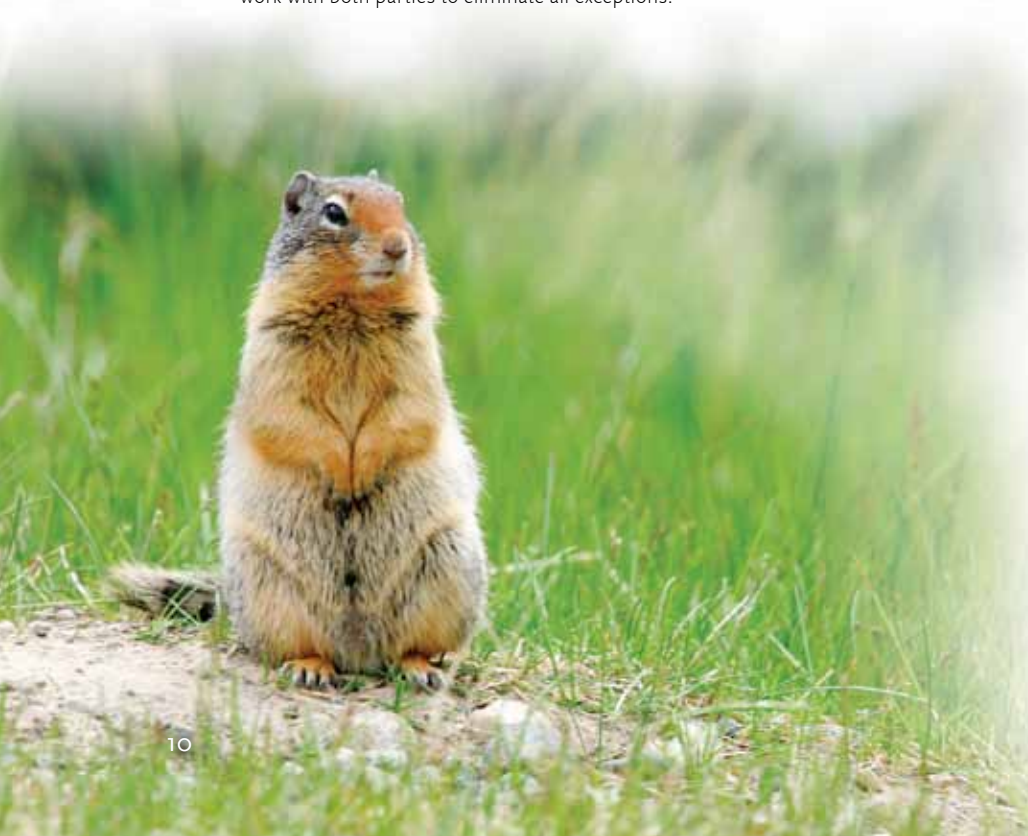
**Encourage full and efficient use of FRIP funds**

*FRIAA promotes full and efficient use of FRIP funds through increasing participation levels and actively encouraging FRIP projects by making funds to those projects available for 36 months.*

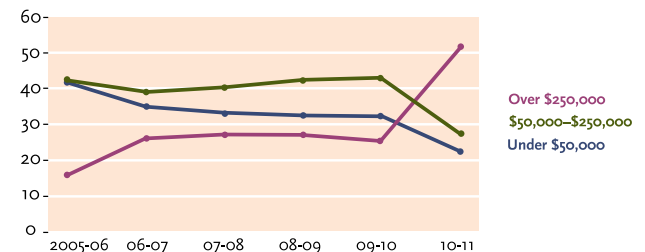
**Results:**

| Project value      | 2010–11 actual<br>(Percentage share by number of projects) | 2010–11 actual<br>(Percentage share by value of projects) |
|--------------------|--|---|
| Under \$50,000     | 22   | 1   |
| \$50,000–\$250,000 | 27   | 4   |
| Over \$250,000     | 51   | 95  |
| Total              | 100  | 100   |

FRIAA’s performance is reviewed over time by monitoring the sizes of projects carried out and evaluating the results, if any, on the efficient use of funds. Distribution of project sizes has changed over the past year as smaller projects are completed and ongoing projects tend to be larger. FRIAA expects more large projects in the future as members cooperate and support collaborative efforts rather than smaller individual projects. Also, in the past, FRIAA had given FRIP participants 36 months to spend their contributed funds. After the three-year window had passed, such funds would have become available for other projects, as determined by the Board of Directors. In 2008–09, however, FRIAA rescinded this 36-month rule and now gives organizations more time to spend their funds, in order to slow depletion of the FRIP fund.



**Actual % Share by Number of Projects by Size**



## Goal five: To ensure full accountability to all Albertans

### Govern effectively

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

#### Results:

| Legislative Requirements  |   |                                 |
|---|---|---------------------------------|
| Requirement   | Action by FRIAA   | Status                          |
| <b>Business plan</b>  | Provide a three-year business plan (including goals) to the Minister of SRD annually.   | Completed                       |
| <b>Annual report</b>  | Provide an annual report of activities and financial statements to the Minister of SRD. | Completed                       |
| <b>FRIAA dues</b>   | Determine FRIAA dues as per Regulation Section 5(1) and 5(1.1).                         | No changes in dues in 2010–11   |
| <b>Notice of change of bylaws</b>   | Give reasonable notice to the Minister of SRD about any bylaw or objective changes.     | No changes in bylaws in 2010–11 |
| <b>Expiry of regulation</b>   | Work with the Minister of SRD to complete regulation review prior to expiry date.       | Completed                       |
| <b>Freedom of Information and Protection of Privacy Act (FOIP Act) requests</b> | Adhere to FOIP Act regulations.   | In compliance                   |
| <b>Records management system</b>  | Have a reliable records management system in place.                                     | In compliance                   |
| <b>Program reporting to the Minister of SRD</b>                                 | Report all forestry enhancement programs to the Minister as per the grant agreement.    | In compliance                   |

| Governance                            |   |               |
|---------------------------------------|---|---------------|
| Requirement                           | Action by FRIAA   | Status        |
| <b>Objectives review</b>              | Periodically review FRIAA's activities to ensure they align with FRIAA's objectives.  | In compliance |
| <b>Bylaws review</b>                  | Ensure annual Board review of FRIAA's bylaws.   | Completed     |
| <b>Director requirements</b>          | In accordance with bylaws, elect or appoint directors for the Board, and provide indemnification and reimbursement of directors' expenses where the Board approves. | Completed     |
| <b>Directors' meetings</b>            | Call directors' meetings as per bylaw requirements, and ensure majority quorum. Ensure minutes are done in writing and approved by directors.                       | In compliance |
| <b>Fees levied and debentures</b>     | Levy fees in accordance with bylaws. Do not provide debentures without a special resolution of the members.   | In compliance |
| <b>Financial accountability</b>       | Audit FRIAA's financial records yearly and provide results to all members through the annual report.  | Completed     |
| <b>Annual general meeting</b>         | Hold a yearly meeting for all members. Conduct meeting and voting as per the bylaws.  | In compliance |
| <b>Program reporting to the Board</b> | Ensure all forestry enhancement programs provide regular administration reports to the Board.   | Completed     |
| <b>MOU review</b>                     | Review the memorandum of understanding with the Minister annually.  | Completed     |

### Ensure full accountability for FRIAA

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

#### Results:

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

### Communicate benefits

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

#### Results:

FRIAA maintains a website to inform stakeholders about administration of the association and its programs.

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

| Policy   | Status   |
|--|--|
| Audit Committee Policy   | <ul style="list-style-type: none"> <li>Approved August 26, 1997.</li> <li>Audit Committee was established August 26, 1997. Membership has been reviewed annually.</li> <li>Audit Committee met in accordance with the policy and reported against it regularly.</li> <li>Audit for 2010–11 was completed in accordance with policy and legislative requirements.</li> </ul>  |
| Conflict of Interest Policy                                    | <ul style="list-style-type: none"> <li>Approved August 26, 1997.</li> <li>Conflicts were reported and recorded in accordance with the policy.</li> </ul>   |
| Appeal Policy  | <ul style="list-style-type: none"> <li>Approved January 19, 1998, as amended.</li> <li>No appeals under the policy were initiated in 2010–11.</li> </ul>   |
| Fund Management Policy   | <ul style="list-style-type: none"> <li>Fund Management Committee was established November 17, 1997.</li> <li>Statement of Investment Policies and Goals was approved April 22, 1998, and amended December 4, 2006.</li> <li>Statement of Investment Policies and Goals for the Community Reforestation Fund was approved December 1, 2003, and amended December 4, 2006, and December 7, 2009.</li> <li>Monthly reports were made by the investment managers to the Fund Management Committee and Board in compliance with the policy and investment statement.</li> </ul> |
| Open Funds Initiative  | <ul style="list-style-type: none"> <li>Approved June 4, 2008, and reviewed annually.</li> </ul>  |
| Public-at-Large Director Selection Protocol                    | <ul style="list-style-type: none"> <li>Policy reviewed and confirmed October 2000.</li> <li>Reviewed October 16, 2008.</li> </ul>  |
| Community Reforestation Program                                | <ul style="list-style-type: none"> <li>Approved and effective May 30, 2000, and reviewed on an ongoing basis.</li> </ul>   |
| Forest Resource Improvement Program Description and Guidelines | <ul style="list-style-type: none"> <li>Approved August 26, 1997, as amended, and reviewed on an ongoing basis.</li> </ul>  |
| Annual Budgeting Protocol                                      | <ul style="list-style-type: none"> <li>Complied in 2010–11.</li> </ul>   |
| Annual Business Plan Review Process                            | <ul style="list-style-type: none"> <li>Complied in 2010–11.</li> </ul>   |



# Financial Highlights

FRIAA's financial statements provide an overview of the funds and resources used to deliver its programs. Highlights of 2010–11 include:

- FRIAA dues receipts remained close to nil again this year as lumber prices remained very low. Dues received were just over \$16,500 compared to a long-term average of nearly \$13 million.
- The FRIP fund was substantially reduced as FRIP project payments were significantly higher than revenues from all sources.
- The FRIP fund investment recovered from the downturn of 2008–09 and at no time were FRIP dues at risk due to market conditions.
- Community Timber Program (CRP) activity levelled off—the number of permits and volume of timber managed under the CRP decreased, while implementation of reforestation treatments on past blocks will carry on as planned.
- FRIP achieved an administration cost ratio of 5.4%, reflecting lower project spending and continued efforts towards efficiency. Since its inception, FRIP has maintained an average administration cost ratio of under 3%.
- WRP had administration cost ratios of 4.2%, with an overall ratio of approximately 3.0% inception to date.
- CRP's administration cost ratio was 6.8%, reflecting higher administration costs related to bad-debt collection, but higher spending as the CRP enhancement funding led to increased activity in the short term.
- Careful planning and cash management strategies were established to preserve capital in the CRP and FRIP funds.

# Auditor's Report

## To the Members of the Forest Resource Improvement Association of Alberta

We have audited the accompanying financial statements of the Forest Resource Improvement Association of Alberta, which comprise the statement of financial position as at March 31, 2011, the statement of revenues and expenditures, statement of changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Forest Resource Improvement Association of Alberta as at March 31, 2011, 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  
Chartered Accountants  
Edmonton, Alberta  
May 13, 2011

## Statement of Financial Position

### March 31

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| <b>Assets</b>                                       |                      |                      |
| <b>Current assets:</b>                              |                      |                      |
| Cash  | \$ 8,508,230         | \$ 17,343,402        |
| Restricted cash (Note 3)                            | 7,226,320            | 9,196,070            |
| Accounts receivable and accrued interest receivable | 672,060              | 565,585              |
| Investments   | 7,497,132            | 5,297,037            |
| Inventory   | 40,373               | 84,117               |
| Prepaid expenses                                    | 866                  | 866                  |
|   | <b>23,944,981</b>    | <b>32,487,077</b>    |
| Investments   | <b>39,124,941</b>    | <b>44,119,020</b>    |
|   | <b>\$ 63,069,922</b> | <b>\$ 76,606,097</b> |

## Liabilities and Net Assets

|  |                      |                      |
|--|----------------------|----------------------|
| <b>Current liabilities:</b>                              |                      |                      |
| Accounts payable and accrued liabilities                 | \$ 1,160,792         | \$ 7,051,487         |
| <b>Net assets:</b>                                       |                      |                      |
| Forest Resource Improvement Program                      | 40,528,101           | 41,096,813           |
| Wildfire Reclamation Program (Note 3)                    | 6,780,860            | 8,552,657            |
| Community Reforestation Program (Note 4)                 | 9,277,560            | 11,067,457           |
| Incidental Conifer Program (Note 5)                      | 1,586,363            | 1,598,374            |
| Mountain Pine Beetle Program (Note 6)                    | 3,555,276            | 5,417,080            |
| Fire Hazard Reduction and Forest Health Program (Note 7) | 160,447              | 1,432,053            |
| Forestry Workers Employment Program (Note 8)             | 20,523               | 390,176              |
|  | <b>61,909,130</b>    | <b>69,554,610</b>    |
|  | <b>\$ 63,069,922</b> | <b>\$ 76,606,097</b> |

### Commitments (Note 10)

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

|  | Forestry<br>Workers<br>Employment<br>Program<br>(Note 8) | Fire Hazard<br>Reduction and<br>Forest Health<br>Program<br>(Note 7) | Wildfire<br>Reclamation<br>Program<br>(Note 3) | Mountain<br>Pine<br>Beetle<br>Program<br>(Note 6) | Incidental<br>Conifer<br>Program<br>(Note 5) | Community<br>Reforestation<br>Program<br>(Note 4) | Forest<br>Resource<br>Improvement<br>Program | 2011<br>total  | 2010<br>total |
|--|--|--|--|---|--|---|--|----------------|---------------|
| <b>Revenues:</b>                         |  |  |  |   |  |   |  |                |               |
| Dues                                     | \$ -   | \$ -   | \$ -   | \$ -  | \$ -   | \$ -  | \$ 16,506                                    | \$ 16,506      | \$ 91,870     |
| Reforestation levies                     | -  | -  | -  | -   | -  | 2,577,263   | -  | 2,577,263      | 1,808,217     |
| Grants                                   | 3,000,000  | 12,274,630   | 372,288  | 1,200,000   | -  | 4,085,217   | 115,000                                      | 21,047,135     | 26,631,068    |
|  | 3,000,000  | 12,274,630   | 372,288  | 1,200,000   | -  | 6,662,480   | 131,506                                      | 23,640,904     | 28,531,155    |
| <b>Expenditures:</b>                     |  |  |  |   |  |   |  |                |               |
| Accounting                               | 28,585   | 70,310   | 23,867   | 28,647  | 3,472  | 161,817   | 45,146                                       | 361,844        | 317,637       |
| Board meetings                           | 186  | 423  | 231  | 174   | 91   | 453   | 820  | 2,378          | 2,567         |
| Communication                            | 8,485  | 20,224   | 15,460   | 12,674  | 1,791  | 61,346  | 28,793                                       | 148,773        | 156,953       |
| Directors' expenses                      | 852  | 852  | 1,264  | 852   | 426  | 2,033   | 2,130  | 8,409          | 9,084         |
| Directors' honoraria (Note 11)           | 1,418  | 1,418  | 2,140  | 1,418   | 709  | 3,391   | 3,545  | 14,039         | 15,084        |
| Field audits                             | 20,670   | 155,784  | 1,273  | (469)   | (20)   | 25,713  | 8,622  | 211,573        | 138,216       |
| Financial audit                          | 8,068  | 9,411  | 7,981  | 346   | 278  | 1,571   | 21,588                                       | 49,243         | 58,904        |
| Insurance                                | 1,070  | 1,024  | 1,559  | 1,024   | 520  | 2,599   | 2,599  | 10,395         | 10,544        |
| Management support                       | 39,867   | 59,403   | 36,790   | 39,600  | 15,548                                       | 373,682   | 69,502                                       | 634,392        | 841,377       |
| Member financial reports                 | -  | -  | -  | (2,693)   | -  | -   | 14,678                                       | 11,985         | 100,030       |
| Office and miscellaneous                 | 1,972  | 15,619   | 576  | 194   | 102  | 1,072   | 736  | 20,271         | 16,567        |
| Professional fees                        | 3,467  | 3,404  | 3,159  | 2,207   | 1,670  | 8,505   | 14,720                                       | 37,132         | 95,038        |
| Reimbursement of FRIP dues               | -  | -  | -  | -   | -  | -   | 670,137                                      | 670,137        | -             |
| Project expenditures                     | 3,237,156  | 13,066,134   | 2,085,852                                      | 2,999,916   | -  | 8,033,481   | 2,765,962                                    | 32,188,501     | 35,717,917    |
| Project operations and monitoring costs  | 12,679   | 131,575  | 15,568   | 14,109  | (134)  | 184,758   | 83,349                                       | 441,904        | 361,878       |
| Project review and approval              | 13,286   | 47,327   | 17,732   | 13,102  | (190)  | 226,766   | 42,909                                       | 360,932        | 352,075       |
|  | 3,377,761  | 13,582,908   | 2,213,452                                      | 3,111,101   | 24,263                                       | 9,087,187   | 3,775,236                                    | 35,171,908     | 38,193,871    |
|  | (377,761)  | (1,308,278)  | (1,841,164)                                    | (1,911,101)                                       | (24,263)                                     | (2,424,707)                                       | (3,643,730)                                  | (11,531,004)   | (9,662,716)   |
| <b>Other income (expenses):</b>          |  |  |  |   |  |   |  |                |               |
| Dividends                                | -  | -  | -  | -   | -  | 178,104   | 310,388                                      | 488,492        | 553,372       |
| Interest                                 | 8,108  | 36,672   | 69,367   | 49,297  | 12,252                                       | 23,166  | 1,018,130                                    | 1,216,992      | 1,263,159     |
| Increase in fair value of investments    | -  | -  | -  | -   | -  | 433,540   | 1,904,875                                    | 2,338,415      | 7,067,009     |
| Investment management fees               | -  | -  | -  | -   | -  | -   | (158,375)                                    | (158,375)      | (211,335)     |
|  | 8,108  | 36,672   | 69,367   | 49,297  | 12,252                                       | 634,810   | 3,075,018                                    | 3,885,524      | 8,672,205     |
| Deficiency of revenues over expenditures | \$ (369,653)   | \$ (1,271,606)   | \$ (1,771,797)                                 | \$ (1,861,804)                                    | \$ (12,011)                                  | \$ (1,789,897)                                    | \$ (568,712)                                 | \$ (7,645,480) | \$ (990,511)  |

See accompanying notes to financial statements.



## Statement of Changes in Net Assets

### Year ended March 31

|  | Forestry Workers<br>Employment<br>Program<br>net assets<br>(Note 8) | Fire Hazard<br>Reduction and<br>Forest Health<br>Program<br>net assets<br>(Note 7) | Wildfire<br>Reclamation<br>Program<br>net assets<br>(Note 3) | Mountain<br>Pine<br>Beetle<br>Program<br>net assets<br>(Note 6) | Incidental<br>Conifer<br>Program<br>net assets<br>(Note 5) | Community<br>Reforestation<br>Program<br>net assets<br>(Note 4) | Forest<br>Resource<br>Improvement<br>Program<br>net assets | <b>2011<br/>total</b> | 2010<br>total |
|--|---|--|--|---|--|---|--|-----------------------|---------------|
| Net assets, beginning of year            | \$ 390,176  | \$ 1,432,053   | \$ 8,552,657   | \$ 5,417,080  | \$ 1,598,374   | \$ 11,067,457   | \$ 41,096,813  | <b>\$ 69,554,610</b>  | \$ 70,545,121 |
| Deficiency of revenues over expenditures | (369,653)   | (1,271,606)  | (1,771,797)  | (1,861,804)   | (12,011)   | (1,789,897)   | (568,712)  | <b>(7,645,480)</b>    | (990,511)     |
| Net assets, end of year                  | \$ 20,523   | \$ 160,447   | \$ 6,780,860   | \$ 3,555,276  | \$ 1,586,363   | \$ 9,277,560  | \$ 40,528,101  | <b>\$ 61,909,130</b>  | \$ 69,554,610 |

*See accompanying notes to financial statements.*



## Statement of Cash Flows

### Year ended March 31

|  | 2011                | 2010                 |
|--|---------------------|----------------------|
| Increase (decrease) in cash and cash equivalents     |                     |                      |
| <b>Operations</b>                                    |                     |                      |
| Deficiency of revenues over expenditures             | \$ (7,645,480)      | \$ (990,511)         |
| Non-cash items                                       |                     |                      |
| Gain on fair value of investments                    | (2,338,415)         | (7,067,009)          |
|  | <b>(9,983,895)</b>  | <b>(8,057,520)</b>   |
| Change in non-cash operating working capital         |                     |                      |
| Accounts receivable and accrued interest receivable  | (106,475)           | 63,212               |
| Inventory  | 43,744              | (50,500)             |
| Accounts payable and accrued liabilities             | (5,890,695)         | 4,436,524            |
|  | <b>(15,937,321)</b> | <b>(3,608,284)</b>   |
| <b>Investing</b>                                     |                     |                      |
| Changes in restricted cash                           | 1,969,750           | 233,271              |
| Purchase of investments                              | (30,776,916)        | (20,028,994)         |
| Proceeds on sale and redemption of investments       | 35,909,315          | 31,468,116           |
|  | <b>7,102,149</b>    | <b>11,672,393</b>    |
| Net (decrease) increase in cash and cash equivalents | <b>(8,835,172)</b>  | <b>8,064,109</b>     |
| Cash and cash equivalents                            |                     |                      |
| Beginning of year                                    | 17,343,402          | 9,279,293            |
| End of year  | <b>\$ 8,508,230</b> | <b>\$ 17,343,402</b> |

See accompanying notes to financial statements.

## Notes to Financial Statements

### Year ended March 31, 2011

#### 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).

In 2009, per agreement with the Province of Alberta, the Association commenced administering the Fire Hazard Reduction and Forest Health Program (Note 7).

In 2009, per agreement with the Province of Alberta, the Association commenced administering the Forestry Workers Employment Program (Note 8).

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 uses the restricted fund method of accounting. All restricted contributions are recorded as revenue of the appropriate restricted fund in the period to which it relates under the terms of the Agreements.

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

Investment income is recorded in the period that it is earned.

##### Cash and cash equivalents

Cash and cash equivalents include unrestricted cash on hand and balances with banks, net of outstanding cheques.

##### Restricted cash

Restricted cash includes cash that is restricted for use in individual programs.

##### Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost includes all costs of purchase and any freight costs incurred in bringing inventories to their present location and condition. Inventory consists of seedlings purchased and held in storage and being grown in the nursery. Cost is determined using the average cost method.

##### Investments

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. Interest and dividends on investments are recorded as other income when earned. Cost of investment as at March 31, 2011, is \$45,470,247 (2010 - \$44,337,756).

##### Use of estimates

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

##### Financial instruments

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

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

As at March 31, 2011, the Association has the following financial instruments:

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



The Association has elected to continue using the disclosure and presentation requirements of CICA Handbook Section 3861 - Financial Instruments - Disclosure and Presentation rather than the provisions of Section 3862 - Financial Instruments - Presentation and Section 3863 - Financial Instrument Presentation. This election is specifically allowed for under the provisions of the above-mentioned sections.

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

On July 3, 2007, the Association entered into a new grant agreement (“2006 Program”) with the Province. Under the terms of the 2006 Program the total grant amount of \$5,137,986 received in 2007 is to be used for the reclamation of 2006 and 2007 burned cutblocks. The annual grants of \$730,272 received in 2009 and \$2,631,068 received in 2010, under the terms of the 2006 Program, are to be used for the reclamation of 2008 and 2009 burned cutblocks respectively. During the current year an annual grant amount of \$372,288 was received, in accordance with the terms of 2006 Program, to be used for the reclamation of 2010 burned cutblocks. The 2006 Program expires on March 31, 2017, unless the term of the agreement is extended or renewed. The obligations of the parties continue for such period of time required to complete the work under the agreement, which shall be no earlier than seven years past the end of the term. Any unused grant amount shall be returned to the Province, together with any interest or return earned from investment of the grant amount seven years from the end of the term.

Restricted cash consists of funds of \$7,226,320 (2010 - \$9,196,070) 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 \$82,980 (2010 - \$42,591).

- 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 \$2,494,283 (2010 - \$1,539,675).

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 Association. The Incidental Conifer Program was established to encourage the replacement of coniferous timber harvested as the result of and incidental to deciduous timber harvesting operations and will be operated by the Association.

Under the terms of the agreement, funding in the amount of \$2,786,484 was transferred by the Province to the Association on November 16, 2005 in respect of work to be undertaken, under contracts, on lands set out in the Forest Management Agreement. Additional funds may be paid to the Association from time to time, representing amounts collected by the Minister for the purpose 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 Association. This Program was established because Mountain Pine Beetle infestations in Alberta reached epidemic proportions, causing significant damage to Alberta’s pine stands. Under the terms of the agreement the Department provides funding, in the form of a grant to be used to administer forest industry sector operators engaged to provide services, beyond tenured obligations, to control, suppress, or eradicate the Mountain Pine Beetle.

Under the terms of the agreement \$5,000,000 was provided in 2007 as initial funding to initiate the Program. Additional annual grant amounts of \$5,000,000 were provided in April 2008 and December 2009. 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. An annual grant of \$1,200,000 was provided in April 2010.

### **7. Fire Hazard Reduction and Forest Health Program**

The Fire Hazard Reduction and Forest Health Program (the “Program”) was established on February 27, 2009, by agreement between Her Majesty the Queen in Right of Alberta as represented by the Minister of Sustainable Resource Development (the “Department”) and the Association, a society incorporated under the laws of the Province of Alberta, with its registered office at Edmonton, Alberta (“FRIAA”). The Fire Hazard Reduction Program was established to

undertake forest management activities designed to reduce fire hazards and maintain forest health on public lands. The Program as agreed to by the Department and the Association is to be administered by the Association.

Under the terms of the agreement, the total grant to be received by the Association from the Department amounts to \$15,000,000. The funds are to be paid in three installments. The first installment of \$2,000,000 was received on May 12, 2009, and the second installment of \$6,500,000 was received from the Department on December 17, 2009. The third installment of \$6,500,000 became payable upon receipt from the Association of an audited report for the Association's 2009-2010 fiscal year. These funds were received by the Association in July 2010. Two years from the last day of the term, March 31, 2012, any unused grant money shall be returned to the Department by the Association.

On July 3, 2009, the Association entered into a separate agreement with Her Majesty the Queen in Right of Canada as represented by the Minister of Western Economic Diversification (the "Minister"). The Minister offered the Association a financial contribution under the Community Adjustment Fund Program to provide funding for the implementation of projects in forest-based communities in Alberta under the Fire Hazard Reduction and Forest Health Program (the "Program").

Under the terms of the agreement the Minister shall provide the Association with a non-repayable contribution not exceeding \$15,000,000 provided the Association is in compliance with the terms and conditions of the Agreement and the Minister's total contribution to project costs, at the end date, does not exceed 50% of project costs. Any contribution paid in excess of 50% of project costs shall be deemed repayable at the end date. Payments of \$2,545,625 and \$4,954,375 were received during November 2009 and February 2010 respectively, totalling \$7,500,000 for the fiscal year ending March 31, 2010. Payments of \$3,750,000 and \$2,024,630 were received during May 2010 and December 2010 respectively, totalling \$5,774,630 for the fiscal year ending March 31, 2011.

The agreement with the Minister of Western Economic Diversification was amended March 28, 2011, whereby the Minister will contribute 100% of the first \$15,000,000 of assisted project costs incurred by the Association prior to March 31, 2011. At the Minister's discretion, the Minister may hold back a portion of the contribution pending receipt of claims for costs through the end date (December 31, 2011).

## 8. Forestry Workers Employment Program

The Forestry Workers Employment Program (the "Program") was established in July 2009 by the Association. The Forestry Worker Employment Program was established to provide funding to Alberta's forestry sector to mitigate impacts from the current economic downturn by encouraging job creation within Alberta communities. The funds are focused towards increasing employment opportunities specifically within the province's silviculture workforce and funding projects relating to the planting of seedlings.

The Program has received funding under two grant agreements with the Minister of Employment and Immigration of Alberta ("AEI") dated July 14, 2009, and July 24, 2009. The total grant proceeds under the agreements is \$6,000,000.

Under the terms of the agreements, the total grant of \$6,000,000 received by the Association was equally disbursed over a two-year period. Grant funds not used for the

purposes for which they were provided, or which have not been used, must be returned. The first year's installment of \$3,000,000 was received on August 12, 2009. The second installment of \$3,000,000 was received May 19, 2010, after receipt of satisfactory reporting of disbursements and demonstrated achievement of the objective to increase employment opportunities for those impacted by the economic downturn in the forestry sector of the Alberta economy from the first \$3,000,000 grant. The first report was submitted by April 30, 2010, and a final report is to be submitted by May 30, 2011.

## 9. Capital disclosures

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

At March 31, 2011, there were no externally imposed capital requirements of the Association.

## 10. Commitments

As at March 31, 2011, the Association is committed to fund approved projects with various terms in the following amounts for each program:

|   | 2011                 | 2010                 |
|---|----------------------|----------------------|
| Forest Resource Improvement Program             | \$ 9,882,015         | \$ 12,700,449        |
| Community Reforestation Program                 | 328,311              | 995,157              |
| Wildfire Reclamation Program                    | 4,513,587            | 4,429,353            |
| Mountain Pine Beetle Program                    | 3,176,678            | 915,710              |
| Fire Hazard Reduction and Forest Health Program | 168,889              | 9,341,008            |
|   | <b>\$ 18,069,480</b> | <b>\$ 28,381,677</b> |

Unspent funding that may arise in a given program may be subject to return provisions unless FRIAA obtains approval to either transfer the amounts to other programs with similar objectives or to use the unspent amounts for remaining overhead costs. In the current year, \$20,523 of unspent funding exists for the Forestry Worker Employment Program. This amount has not been recorded as a liability in these financial statements, as FRIAA plans to seek approval to use this amount for remaining overhead costs of the program.

## 11. Related party transactions

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

|                  | 2011             | 2010             |
|------------------|------------------|------------------|
| James C. Bocking | \$ 2,888         | \$ 3,400         |
| A. David Kiil    | 5,705            | 7,588            |
| Jurgen Moll      | 2,812            | 2,091            |
| Murray Summers   | 1,731            | 1,290            |
| Other            | 903              | 715              |
|                  | <b>\$ 14,039</b> | <b>\$ 15,084</b> |

The above related party transactions are conducted on the terms and conditions agreed to by the related parties and were recorded at the exchange amount.

## 12. Financial instruments

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

### Fair value

The estimated fair value of cash, accounts receivable and accrued interest receivable, and accounts payable and accrued liabilities approximates their carrying value due to the relatively short-term nature of these instruments. The estimated fair value of investments is determined using quoted market prices.

### Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Association is exposed to credit risk from accounts receivable. The Association's receivable balance is made up of numerous receivables, which reduces the concentration of credit risk.

### Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Investments bear interest at a fixed rate. Fixed rate investments are subject to interest rate price risk, as the values will fluctuate as a result of changes in market rates.

## Forest Resource Improvement Association of Alberta

- 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 Ltd.
- 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 Lake Sawmills (1980) Ltd.
- Spruceland Millworks Inc.
- Sundance Forest Industries Ltd.
- Sundre Forest Products Ltd.
- Tall Pine Timber Co. Ltd.
- Tolko Industries Ltd.
- Vanderwell Contractors (1971) Ltd.
- Weyerhaeuser Company Ltd.
- Zama Mills Ltd.
- Zavisha Sawmills Ltd.

## Members



