



Forest Resource Improvement Association of Alberta





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President's Message

The Forest Resource Improvement Association of Alberta (FRIAA) closely manages its programs to ensure that it serves the public of Alberta in an effective manner. By building and maintaining strong relationships with the forestry community, effectively administering current programs and working with the Minister of Sustainable Resource Development on new and innovative opportunities, FRIAA continues to be an important factor in the enhancement of Alberta's forest resources and in the improvement of the management of Alberta's forests.

FRIAA's primary program is the Forest Resource Improvement Program (FRIP)—a program that we have delivered successfully for nine years now. The flow of revenues to support Alberta's Forest Resource Improvement Program has been decreasing

over the past year in step with faltering market prices for lumber produced in the province. In fact I mentioned in a presentation to the provincial Standing Policy Committee on Energy and Sustainable Development that FRIP revenues could fall to zero if some market predictions are correct.

The FRIP funds paid by industry are calculated in relation to timber dues, which in turn are set as a reflection of market prices. As prices fall, so do the timber dues - and it's possible they could fall low enough that FRIP revenues paid to FRIAA would become negligible or disappear altogether for a time.

I wanted to be very open in expressing this reality, and it's important that FRIAA members know the situation too. The FRIP system of payments and projects has become a key part of the way many companies in Alberta do business, and in how they ensure improvements in the forest resource for the benefit of all Albertans.

Equally important, I want to emphasize that no disruption in disbursements or approval of new projects is anticipated. FRIAA plans on project disbursements of about \$15 million a year, and this should continue. The reason is that we have come through some very good years in which FRIP dues have far outweighed this amount, and thus we have savings and investments that will ensure the sustainability of our program.

Once again, I think it is a testament to the efficient administration of FRIAA and the wise management policies of the Board that we can call on these resources in lean times.

While our situation must be monitored closely, we have a healthy balance sheet and are confident that our programs will continue to play a vital role in the sustainability and enhancement of Alberta's public forests.



Trevor Wakelin, President

FRIAA Continually Monitors and Improves the Administration of its Programs

FRIAA has made efforts throughout the year to ensure that its programs meet specific objectives stated for each initiative and to ensure that the delivery of these programs is effective, efficient and responsible. This effort is demonstrated in a number of ways. Each year, FRIAA carries out a program review that allows the Board of Directors to reflect on the organization's programs and represents an opportunity for members and stakeholders to provide input. This year, FRIAA undertook a more detailed review of the Community Reforestation Program (CRP) with a specific objective of assessing the program funding level relative to its costs. Both of these continuous improvement and monitoring efforts resulted in some key insights and useful suggestions, including:

- A detailed review of reforestation levy rates is helping FRIAA to better understand key areas of risk related to funding levels for the CRP.
- Consultation with timber permit and licence holders is helping FRIAA to better understand stakeholder concerns and how levy rates affect their business.
- Feedback from the membership and other stakeholders encourages FRIAA to continue on with the Open Funds FRIP process.
- Feedback from Government is very positive with respect to FRIAA's role in supporting the department of Sustainable Resource Development's mandate to sustain forest resources.

A review of the past year indicates that FRIAA is able to deliver its three programs in a way that achieves program objectives, supports broader objectives of forest resource enhancement and benefits the public in a responsible and accountable manner.

Board of Directors

- | | |
|--|--|
| ■ President:
Trevor Wakelin | ■ Treasurer:
Murray Summers |
| ■ Vice President:
James Bocking | ■ Directors:
Tom Hoffman
David Kiil
Bruce Macmillan |
| ■ Second Vice-President:
Doug Sklar | |

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 are observed.
- Assessing the performance of FRIAA's investment manager and the investment fund against specific targets and measurement criteria.

Members of this committee are:

- James Bocking
- Murray Summers
- David Kiil

In addition to the two standing committees described above, FRIAA has also established specific 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 2005/06 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 are:

- David Kiil, Director of FRIAA (Public-At-Large Appointment), Former Director General of the Northern Forestry Research Centre.
- Jerry Bauer, Former General Manager of Canadian Forest Products in Grande Prairie, Alberta.
- Peter Murphy, Professor Emeritus, University of Alberta.
- Barry White, Scientific Advisor, Alberta Sustainable Resource Development

4. Appeals Panel

An Appeals Panel can be established when needed to hear appeals initiated by the membership. Members for such Panels are selected on a case-by-case basis depending on their area of expertise and suitability for the matter at hand.

Program Highlights

Programs delivered by FRIAA include the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP) and the Wildfire Reclamation Program (WRP). The objectives of these programs are aimed at improving the forests of Alberta and to enhance the management of Alberta's forests for the benefit of all Albertans. A number of key accomplishments over the past year have benefited Albertans:

a. Continuous Improvement of the Community Reforestation Program (CRP)—In 2000, the CRP was transferred from the Government of Alberta to FRIAA. This included responsibility for reforesting cutblocks harvested after May 2000 as well as continuing government's reforestation activities on older cutblocks harvested prior to May 2000. In 2005/2006, FRIAA has made excellent 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 \$15 million in support of this subprogram and has committed to providing an additional \$3 million over the next 2 years. FRIAA has focused on completing regeneration surveys and stand tending on priority areas in order to maximize the area expected to meet applicable reforestation standards. To date, 10,000 hectares have met the applicable reforestation standard.

The CRP subprogram related to blocks harvested after May 30, 2004 is funded by reforestation levies paid directly to FRIAA. FRIAA has continued to use the government's reforestation levy rate since 2000; however a detailed review of the levy rate is currently underway to ensure that the rate reflects the costs of reforestation.

FRIAA continues to listen to stakeholders in the program and work with timber permit holders, service providers and government to improve the processes related to the collection of reforestation levies. An efficient and successful program of levy collection, silviculture planning, reforestation activities, and project management has been developed and implemented for sustaining this important natural resource.

b. Expanding the Open Funds Initiative under the Forest Resource Improvement Program—The first Open Funds Initiative was implemented in 2002-03 to expand participation and involvement under FRIP. Response to the Open Funds Initiative was significant and subsequent initiatives were implemented each year thereafter. In the summer of 2005, a call for proposals was released and a total of 37 proposals were submitted to the Open Funds Panel. These proposals addressed a wide range of topic areas and comprised nearly \$5.3 million of cumulative funding requests. Proposals were accepted in two categories—Provincial wide proposals and local proposals. The final selection of successful proposals consisted of 16 projects adding up to just under \$2 million in funding.

c. Maintaining the success of the Wildfire Reclamation Program

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

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 this year's business plan (2004/2005):

Goal one: Effective governance

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

Results:

Requirements	Results	Date
Bylaws	Reviewed for compliance	Ongoing
Organizational objects	Reviewed for compliance	Ongoing
Societies Act requirements	Reviewed for compliance	Ongoing
Annual filings	Filed	Annually
Audited financial statements	Prepared and released	By AGM June, 2006
Annual report	Prepared and released	By AGM June, 2006
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 Minister are well represented.

Results:

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

Policy	Status
Audit Committee Policy	<ul style="list-style-type: none"> Approved August 26, 1997. Audit Committee established August 26, 1997. Membership reviewed annually. Audit Committee has met in accordance with the policy and reported against it regularly. Audit for 2005/06 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 2005/06.
Fund Management Policy	<ul style="list-style-type: none"> Fund Management Committee established November 17, 1997. Statement of Investment Policies and Goals approved April 22, 1998 and amended December 1, 2003. Statement of Investment Policies and Goals for the Community Reforestation Fund approved December 1, 2003. Monthly reports have been made by the investment managers to the Committee and Board in compliance with the policy and investment statement.
Open Funds Policy	<ul style="list-style-type: none"> Approved June 24, 2005.
Public-at-Large Director Selection Protocol	<ul style="list-style-type: none"> Policy reviewed and confirmed October 2000. Reviewed May 21, 2003.
Community Reforestation Program	<ul style="list-style-type: none"> Approved and effective May 30, 2000.
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 2005/06.
Annual Business Plan Review Process	<ul style="list-style-type: none"> Compliance in 2005/06.

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		
	03/04	04/05	05/06	03/04	04/05	05/06
0-10,000	2	2	2	10*	12*	14*
10,000-107,296	8	8	8	9*	11*	10*
107,296 +	21	21	21	20	20	21

*Includes non-member participants

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

Goal four: Encourage full and efficient use of FRIP funds

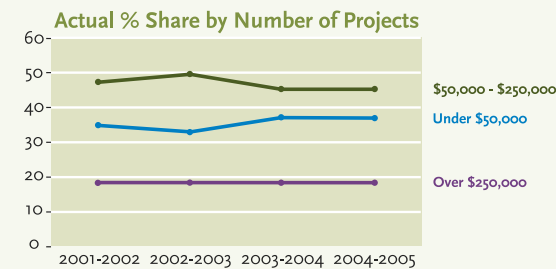
Full and efficient use of FRIP funds is promoted through the strategy of increasing participation levels as well as actively encouraging FRIP projects by making funds available for projects for 36-month periods of time after funds are contributed.

Results:

Project Size Category	2005-2006 Actual (Percentage Share by Number of Projects)	2005-2006 Actual (Percentage Share by Value of projects)
Under \$50,000	42	7
\$50,000 - \$250,000	42	31
Over \$250,000	16	62
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 larger FRIP fund and opportunities for larger operational projects, FRIAA expects more medium and large sized projects in the future. In 2005/06 there were no individuals or companies that were approaching a situation where available FRIP funds

were at risk of not being utilized within three years of the contribution date (compared to over \$143 million contributed since September 1997). Once the three-year window has passed, such funds become available for projects as determined by the Board. FRIAA will continue to encourage the use of these funds in the future through program awareness, promotion of joint funding efforts, and open funds initiatives.



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.

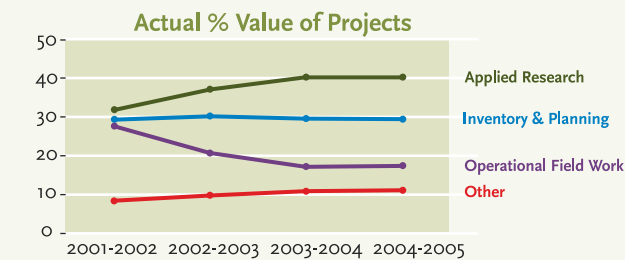
The measurement of performance towards this goal is to be based on tracking projects within each category over time.

The following results reflect active projects within the fiscal year.

Results:

Project Category	2005-06 Actual (Percentage Share by Number of Projects)	2005-06 Actual (Percentage Share by Value of Projects)
Operational Field Work	9	17
Inventory & Planning	29	31
Applied Research	35	41
Other	27	11

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	40,290,025	Seedlings
Total Area Planted	24,403	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 2.15%. 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 recently established a goal of effective reforestation in a manner that is consistent with the reforestation standards set out in the Timber Management Regulations and the Alberta Regeneration Survey Manual.

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				
Post 2000				
Total				

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

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

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

Results:

FRIAA is developing and aggressively pursuing the goal of initiating reforestation treatments within 2 years of harvest on 100% of blocks harvested after May 30, 2000. While it is still early in the process, as of May 30, 2004 all areas communicated to FRIAA immediately upon skid clearance that are within the program have initially been treated within two years of harvest. FRIAA continues to work with the government on blocks that are communicated to FRIAA after the two year period has already passed or cannot be reasonably met. The timing of block information being passed on to FRIAA remains critical.

Goal 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. Over the past year, abstracts have been prepared for applied research projects and these 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 2005/06 include:

- A reduced level of FRIAA dues receipts was experienced in 2005/06 compared to the previous year as lumber prices decreased and the Canada/U.S. exchange rate shifted towards an appreciated Canadian dollar. FRIP dues received were \$14.5 million compared to \$40.5 million in the previous year.
- A small increase in the FRIP fund was experienced as FRIP dues receipts plus investment income was slightly higher than FRIP project payments.
- A levelling off of the CRP fund as the number of permits and volume of timber managed under the Community Timber Program decreased and the implementation of reforestation treatments on past blocks carrying on as planned.
- An administration cost ratio of 4.45% for FRIP in 2005-06 (4.42% inception to date) and 7.12% for WRP in 2005-06 (2.03% inception to date).
- An administration cost ratio of 19.74% for CRP in 2005-06 (12.10% inception to date), reflecting a shrinking program size and increased complexity of coordinating the CRP.

Auditors' Report