



Forest Resource Improvement

Association of Alberta



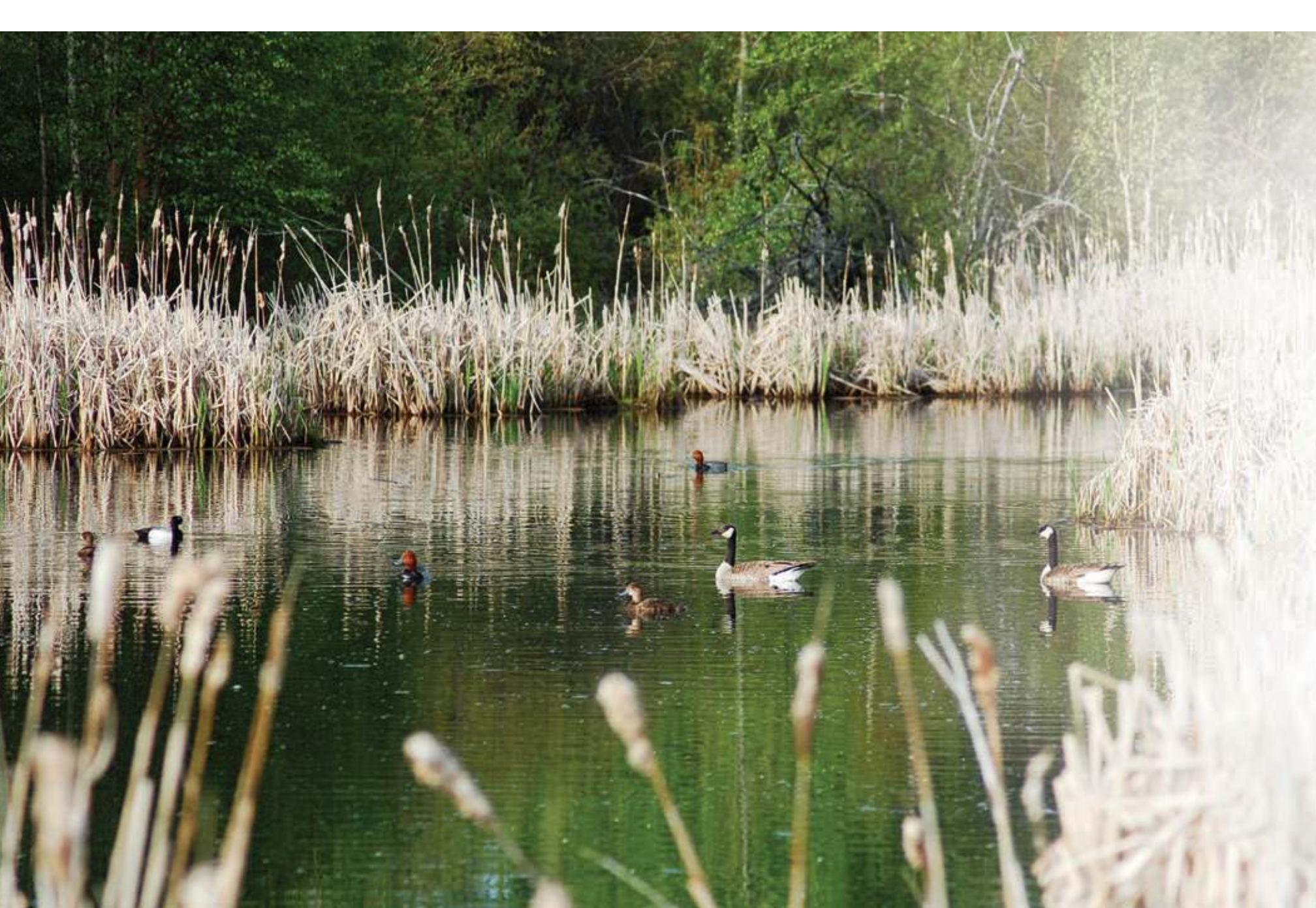


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President's Message

What a wonderful success story! The Forest Resource Improvement Association of Alberta (FRIAA) has been in operation for 10 years now and has provided unique, effective and highly valued forestry enhancement programs that benefit all Albertans. The creation of FRIAA in April, 1997 was a bold initiative founded on a vision, shared by all stakeholders, of building and delivering programs that channelled funds directly back into the forest resource. The vision recognizes that so many Albertans deeply value our forests and depend



on forest resources for their livelihoods and lifestyle. Translating this vision into action required FRIAA to build and maintain strong, constructive relationships throughout the forestry community, including government, industry, academia, other NGOs and our rural and urban communities. The result has been an outstanding accomplishment with four forestry improvement programs delivered by FRIAA: the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP), the Wildfire Reclamation Program (WRP) and the Incidental Conifer Program (ICP). All four programs utilize dedicated funds for specific forestry enhancement activities and focus on getting results.

Our 10 year anniversary offers a chance to reflect on what we have accomplished and to imagine the opportunities that lie ahead!

Through our Forest Resource Improvement Program (FRIP), we have provided over \$160 million to worthwhile projects that improve forests, promote enhanced forest management, improve the sustained yield of forest resources and promote integrated forest management. The program has been highly successful by addressing forestry challenges identified by a wide range of stakeholders including government agencies, forestry companies, colleges and universities, research organizations, contractors, community groups and not-for profit organizations. Key issues that have been addressed through FRIP funding include improving

the growth of our forests through stand tending, protecting Alberta's forests from Mountain Pine Beetle infestations, supporting Caribou Range Recovery efforts, integrating Grizzly Bear habitat requirements with forest management, and enhancing educational opportunities for school children and community members in general. In all, 956 different projects have been funded through the FRIP program.

Through our Community Reforestation Program nearly 30 million seedlings have been planted and nearly 28,000 hectares of forest, logged by small operators and individuals, has been reforested. This reforestation program helps to ensure a sustained yield of timber in areas that support community loggers and sawmillers. Through our Wildfire Reclamation Program over 40 million seedlings have been planted and over 24,000 hectares have been treated. These areas were destroyed or severely damaged by wildfire and would not have grown productive forests without the efforts under this program. Our fourth and smallest program, the Incidental Conifer Program, involves funding projects aimed at growing coniferous trees in specific areas to offset the harvest of incidental coniferous timber on deciduous areas. All projects have proven to be very effective in channelling dedicated funds into Alberta's forest resources in a way that provides valuable benefits to all Albertans.

Looking ahead, there are many opportunities to provide further benefits to Albertans. FRIAA's proven track record in sound, accountable governance and efficient administration make our organization an attractive means to deliver funded programs. We are currently discussing opportunities for FRIAA to help government deliver a Mountain Pine Beetle management and protection program. Other opportunities exist to use FRIAA's structure to deliver programs that enhance Alberta's forests. We'll remain open to supporting the government's goals of sustainably managing public forests and enhancing the forest resources that are so important to all Albertans.

A stylized, handwritten signature in black ink, appearing to read 'Trevor Wakelin'.

Trevor Wakelin, President

FRIAA maintains Strong Support from its Members and Stakeholders

FRIAA regularly communicates with members and stakeholders to understand their interests and to ask for feedback on our performance. Our managers and foresters are committed to applying sound administrative practices and scientific knowledge in delivering all of FRIAA's programs and are always open to suggestions on how to provide better service.

Meetings over the past year with small loggers and sawmillers indicate that they have concerns regarding reforestation costs, though they support FRIAA as the organization that delivers the program. Other communication with stakeholders provides us with useful advice and allows us to continually improve program delivery to better meet our clients' needs. Again, feedback from our clients indicates a high level of support for FRIAA in delivering the four current programs and possibly others.

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

- **Provincial Goal #11**– The high quality of Alberta's environment will be sustained.
- **SRD Goal #2** – The values Albertans receive from forests and forest landscapes are sustained and enhanced for future generations.
- **SRD Goal #3** – The values Albertans receive from wild species are sustained and enhanced for future generations.
- **SRD Goal #4** – The values Albertans receive from rangelands are sustained and enhanced for future generations.

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

Board of Directors

- | | |
|--|---|
| ■ President:
Trevor Wakelin | ■ Treasurer:
Murray Summers |
| ■ Vice President:
James Bocking | ■ Directors:
Dwight Weeks
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 policies are observed.
- Assessing the performance of FRIAA's investment manager and the investment fund against specific targets and measurement criteria.
- Monitoring to ensure FRIAA's investment returns targets are achieved.

Members of this committee are:

- James Bocking
- Murray Summers
- David Kiil

In addition to the two standing committees described above, FRIAA has also established specific mandates for other committees 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 2006/07 year. The Panel's responsibilities included:

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

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

- David Kiil, Director of FRIAA (Public-At-Large Appointment) and, Former Director General of the Northern Forestry Research Centre.
- Bob Udell, Former Senior Manager with Weldwood of Canada Ltd.
– Hinton Division
- Jack Heidt, 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 this Panel 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 2006/07 and no appeal panel was struck.



Program Highlights

Programs delivered by FRIAA include the Forest Resource Improvement Program (FRIP), the Community Reforestation Program (CRP), the Wildfire Reclamation Program (WRP) and the Incidental Conifer program (ICP). The objectives of these 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 relative to the administration of FRIAA's programs include:

a. Maintaining the Forest Resource Improvement Program (FRIP)

FRIP continued to be delivered at planned levels of funding and activity in spite of FRIP dues that have been at historic low levels. FRIP project expenditures were maintained near the long term average level with \$14.1 million spent on FRIP projects over the year. In addition, there is \$25.8 million committed to ongoing FRIP projects as of March 31, 2007.

Response to FRIAA's Open Funds Initiative was also strong. In the summer of 2006, 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 \$7.5 million of cumulative funding requests. Proposals were accepted in two categories—proposals having a province-wide impact and local proposals. The final selection of successful proposals resulted in 12 projects and a commitment of \$2 million in funding.

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

In 2000, the CRP was transferred from the Government of Alberta to FRIAA. This included responsibility for reforesting cutblocks harvested after May 2000 as well as continuing the government's reforestation activities on older cutblocks harvested prior to May 2000. In 2006/2007, FRIAA continued to make good progress on both parts of the program.

The CRP subprogram related to blocks harvested between 1994 and 2000 is funded by payments from government that represents reforestation levies collected by government from timber permit and licence holders that harvested timber on those areas. To date,

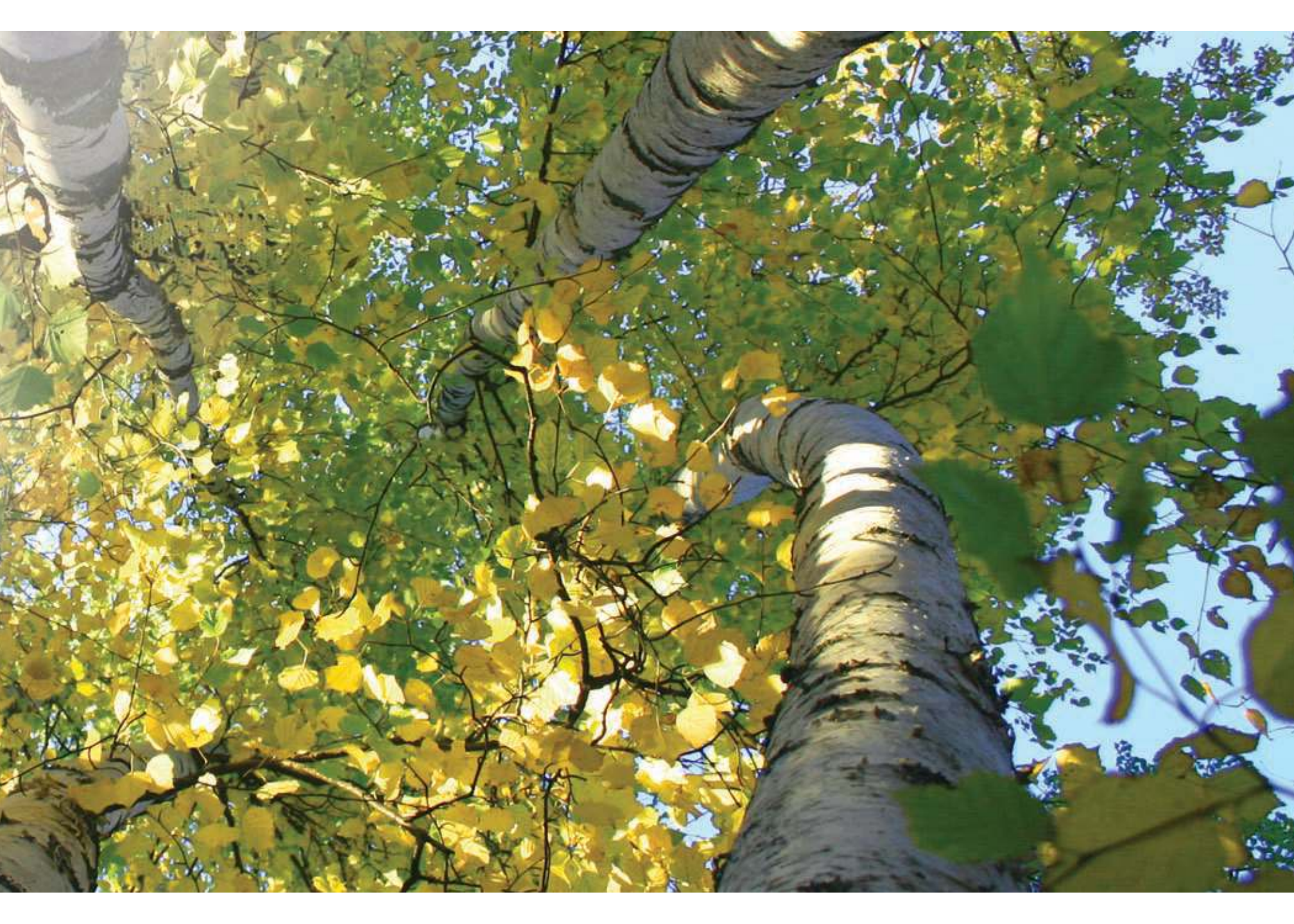
the government has transferred \$16.5 million in support of this subprogram and has committed to providing an additional \$1.5 million over the next year. FRIAA has focused on completing regeneration surveys and stand tending on priority areas in order to optimize the results of the 1994 to 2000 subprogram.

The CRP subprogram related to blocks harvested after May 30, 2000, is funded by reforestation levies paid directly to FRIAA. FRIAA has continued to use the government's reforestation levy rate that was established in 2000; however, a detailed review of the levy rate and method of application has been undertaken to help ensure that the activities related to reforestation are fully funded.

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

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

In addition to managing the final stages of the WRP program, discussions with the Minister of Sustainable Resource Development (SRD) respecting a new WRP program have resulted in a commitment to treat over 1,400 hectares of reforested cutblocks damaged or destroyed by wildfire in 2006. FRIAA is committed to continuing its contributions towards sustainable forest management in the wake of catastrophic wildfires.





Business Plan Highlights

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

The following describes FRIAA's performance over the past year relative to the current business plan submitted to the Minister on February 27, 2007:

Goal one: Effective governance

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

Results:

Requirements	Results	Date
Bylaws	Reviewed for compliance	Ongoing
Organizational objects	Reviewed for compliance	Ongoing
Societies Act requirements	Reviewed for compliance	Ongoing
Annual filings	Filed	Annually
Audited financial statements	Prepared and released	By AGM June, 2007
Annual report	Prepared and released	By AGM June, 2007
Board and committee membership	Reviewed for compliance	Ongoing
Communications to the Minister	General updates, provision of policies, business plan, annual report and audited financial statements	Ongoing and as required
Other policies and procedures	Reviewed for compliance	Annually

Goal two: Ensure full accountability for FRIAA

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

Results:

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

Policy	Status
Audit Committee Policy	<ul style="list-style-type: none"> ■ Approved August 26, 1997. ■ Audit Committee established August 26, 1997. Membership reviewed annually. ■ Audit Committee has met in accordance with the policy and reported against it regularly. ■ Audit for 2006/07 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 2006/07.
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, 2006. Reviewed annually.
Public-at-Large Director Selection Protocol	<ul style="list-style-type: none"> ■ Policy reviewed and confirmed October 2000. ■ Reviewed October 5, 2005.
Community Reforestation Program	<ul style="list-style-type: none"> ■ Approved and effective May 30, 2000. Reviewed on an ongoing basis.
Forest Resource Improvement Program Description and Guidelines	<ul style="list-style-type: none"> ■ Approved August 26, 1997, as amended, reviewed on an ongoing basis.
Annual Budgeting Protocol	<ul style="list-style-type: none"> ■ Compliance in 2006/07.
Annual Business Plan Review Process	<ul style="list-style-type: none"> ■ Compliance in 2006/07.

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		
	04/05	05/06	06/07	04/05	05/06	06/07
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

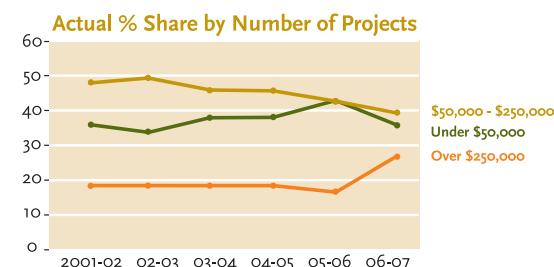
FRIAA's goal is for 100% participation of medium and large member companies. FRIAA has effectively achieved this goal for medium- and large-sized companies. Through the Open Funds Initiative, access to FRIP funds has been extended to non-members. This accomplishes the goal of expanding participation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

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	2006/07 Actual (Percentage Share by Number of Projects)	2006/07 Actual (Percentage Share by Value of Projects)
Under \$50,000	35	5
\$50,000 - \$250,000	39	24
Over \$250,000	26	71
Total	100	100



FRIAA's performance measure is reviewed over time by monitoring the sizes of projects carried out and evaluating the consequences, if any, on the effective 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 2006/07, there was \$1,058,053 identified as not being utilized within three years of the contribution date (compared to over \$144 million contributed by FRIAA members since September 1997). After three years, FRIP 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

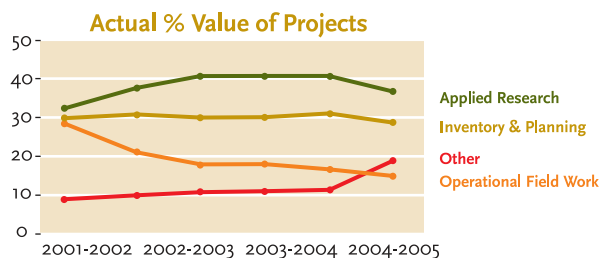
Different approaches for improving forest resources and the management of Alberta's forests fall into one of four categories. FRIAA will support projects across all of these categories.

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	2006-07 Actual (Percentage Share by Number of Projects)	2006-07 Actual (Percentage Share by Value of Projects)
Operational Field Work	10	15
Inventory & Planning	29	29
Applied Research	34	37
Other	27	19

The percent value of the projects is under the target range for operational field projects and over the target range for applied research projects. The relative proportion of projects has stabilized over the past year after two years of decreasing numbers of operational field projects and increasing applied research projects. FRIAA will continue to monitor these trends and evaluate the impact, if any, on the program objectives.



Goal six: Deliver the Wildfire Reclamation Program in a Cost Efficient Manner

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

WRP Facts	Program inception to date	
Total Seedlings Planted	41,055,639	Seedlings
Total Area Planted	25,161	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 2.96%. FRIAA continues 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	31,868 ¹	31,688	9,629	22,059
Post 2000	22,167	19,987	1,875	20,742
Total	54,305	51,675	11,503	42,801

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 pProvince. FRIAA has carried out initial site preparation and planting work and the remaining funds are adequate to carry out establishment surveys for most of the areas. The level of funding is continuously monitored and FRIAA is taking steps to ensure sufficient funding is in place.

¹ Harvested area with in the 1994 to 2000 program is less than that reported in the previous annual report due to corrections to records by SRD.

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 two years of harvest on 100% of blocks harvested after May 30, 2000. While it is still early in the process, as of March 31, 2007, all areas communicated to FRIAA immediately upon skid clearance that are within the program have 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. The timing of FRIAA's receipt of block information 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 FRIAA's website.

FRIAA's newsletter, *Branching Out*, is also produced and distributed three times a year. Our 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 2006/07 include:

- FRIP dues receipts decreased dramatically compared to the previous year, and earlier years, as lumber prices decreased, the Canada dollar appreciated relative to the U.S. dollar, and the basis for FRIAA/Timber dues was adjusted. FRIP dues received were less than \$1 million compared to \$14.5 million in the previous year and \$40.5 million in the year prior to that.
- A decrease in the FRIP fund was experienced as FRIP dues receipts plus investment income was lower 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 while the implementation of reforestation treatments on past blocks carry on as planned.
 - An administration expense ratio of 4.94% for FRIP in 2006/07 (4.42% inception to date) and 1.80% for WRP in 2006/07 (2.03% inception to date).
 - An administration expense ratio of 14.45% for CRP in 2006/07 (12.10% inception to date), reflecting a reduction in the size of the program and increased complexity of coordinating the CRP.

Auditors' Report

To the Members of Forest Resource Improvement Association of Alberta

We have audited the statement of financial position of Forest Resource Improvement Association of Alberta as at March 31, 2007 and the statements of revenues and expenditures, change in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 2007 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 10, 2007

Statement of Financial Position

March 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash	\$ 6,290,989	\$ 5,805,091
Restricted cash (Note 3)	4,612,402	5,297,413
Accounts receivable and accrued interest receivable	2,993,093	3,683,707
Investments	11,906,390	7,696,101
Inventory	137,882	223,480
Prepaid expenses	866	422
	25,941,622	22,706,214
Computer equipment, at cost less accumulated amortization of \$17,463; (2006-\$15,761)	—	1,702
Investments	63,180,110	76,871,909
	\$ 89,121,732	\$ 99,579,825
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 774,346	\$ 3,193,927
Net assets:		
Invested in computer equipment	—	1,702
Forest resource improvement program	63,775,980	72,384,727
Wildfire reclamation program (note 3)	4,564,864	5,273,609
Community reforestation program (note 4)	17,723,627	16,530,888
Incidental conifer program (note 5)	2,282,915	2,194,972
	88,347,386	96,385,898
Commitments (note 6)		
	\$ 89,121,731	\$ 99,579,825

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, 2007, with comparative figures for 2006

	Wildfire reclamation program (Note 3)	Incidental conifer program (Note 5)	Community reforestation program (Note 4)	Forest resource improvement program	2007 total	2006 total
Revenue						
FRIAA Dues	\$ -	\$ -	\$ -	\$ 840,681	840,681	\$ 14,522,766
Reforestation levies	-	-	3,609,353	-	3,609,353	5,196,703
Grants	-	-	1,500,000	-	1,500,000	2,786,484
	-	-	5,109,353	840,681	5,950,034	22,505,953
Expenditures:						
Accounting	13,791	-	109,878	92,950	216,619	157,837
Amortization	-	-	851	851	1,702	7,219
Communication	17,409	-	39,376	58,676	115,461	164,437
Board meetings	788	-	1,472	1,575	3,835	2,983
Directors' expenses	659	-	1,253	1,332	3,244	5,513
Directors' honoraria (Note 7)	1,159	-	2,353	2,366	5,878	7,196
Field audits	4,107	-	42,233	99,548	145,888	130,744
Financial audit	6,392	-	-	16,424	22,816	43,996
Insurance	1,514	477	3,980	3,980	9,951	5,058
Management support	76,607	-	175,093	128,597	380,297	376,037
Member financial reports	-	-	-	51,509	51,509	41,359
Office and miscellaneous	395	-	568	3,588	4,551	1,762
Professional fees	17,423	-	31,352	35,654	84,429	55,048
Project expenditures	748,286	-	4,369,765	14,111,100	19,229,151	22,606,800
Project operations and monitoring costs	19,920	-	110,465	96,810	227,195	301,162
Project review and approval	4,632	-	219,375	139,388	363,395	382,358
	913,082	477	5,108,014	14,844,348	20,865,921	24,289,509
	(913,082)	(477)	1,339	(14,003,667)	(14,915,887)	(1,783,556)
Other income (expenses)						
Interest	204,337	88,420	130,472	2,703,523	3,126,752	2,682,439
Dividends	-	-	765,638	213,583	979,221	691,553
Gain on sale of investments	-	-	294,439	2,816,691	3,111,130	1,158,438
Investment management fees	-	-	-	(339,728)	(339,728)	(327,899)
Foreign exchange loss	-	-	-	(23,534)	(23,534)	(111)
	204,337	88,420	1,190,549	5,394,069	6,877,375	4,180,997
(Deficiency) excess of revenues over expenditures	\$ (708,745)	\$ 87,943	\$ 1,191,888	\$ (8,609,598)	\$ (8,038,512)	\$ 2,397,441

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended March 31, 2007, with comparative figures for 2006

	Net assets invested in computer equipment	Incidental conifer program (Note 5)	Wildfire reclamation program net assets (Note 3)	Community reforestation program net assets (Note 4)	Forest resource improvement program net assets	2007 Total	2006 Total
Net assets, beginning of year	\$ 1,702	\$ 2,194,972	\$ 5,273,609	\$ 16,530,888	\$ 72,384,727	\$ 96,385,898	\$ 93,988,457
(Deficiency) excess of revenues over expenditures	-	87,943	(708,745)	1,191,888	(8,609,598)	(8,038,512)	2,397,441
Amortization	(1,702)	-	-	851	851	-	-
	\$ -	\$ 2,282,915	\$ 4,564,864	\$ 17,723,627	\$ 63,775,980	\$ 88,347,386	\$ 96,385,898

See accompanying notes to financial statements.

Statement of Cash Flows

Year Ended March 31, 2007, with comparative figures for 2006

	2007	2006
Increase (decrease) in cash		
Operations		
(Deficiency) excess of revenue over expenditure	\$ (8,038,512)	\$ 2,397,441
Non-cash items		
Amortization	1,702	7,219
Gain on sale of investments	(3,111,130)	(1,158,438)
Foreign exchange loss	-	23,534
	(11,147,940)	1,269,756
Change in non-cash operating working capital		
Accounts receivable and accrued interest receivable	690,614	(517,405)
Inventory	85,598	(146,377)
Prepays	(444)	6,000
Accounts payable and accrued liabilities	(2,419,581)	(373,859)
	12,791,753	238,115
Investing		
Purchase of investments	(94,866,634)	(163,009,308)
Proceeds on sale and redemption of investments	107,459,274	144,249,066
	12,592,640	(18,760,242)
Net (decrease) increase in cash	(199,113)	(18,522,127)
Cash and cash equivalents		
Beginning of year	11,102,504	29,624,631
End of year	\$ 10,903,391	\$ 11,102,504
Supplemental cash flow information		
Cash is comprised of:		
Cash	\$ 6,290,989	\$ 5,805,091
Restricted cash (Note 3)	4,612,402	5,297,413
	\$ 10,903,391	\$ 11,102,504

See accompanying notes to financial statements.

Notes to Financial Statements

Year Ended March 31, 2007

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 Program 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, and by virtue of changes to the Forest Resource Improvement Regulation, 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).

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

2. Summary of significant accounting policies

Revenue recognition

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

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

The Association uses the restricted fund method of accounting.

Cash and cash equivalents

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

Inventory

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

Investments

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

Amortization

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

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

Use of estimates

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

Financial instruments

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

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

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

The Wildfire Reclamation Program was established on November 1, 1998 and amended on November 24, 2000 and February 15, 2006 by agreement between Her Majesty the Queen in Right of Alberta as represented by the Minister of Environment (the "Province") and the Association. The Wildfire Reclamation Program was established to encourage the reclamation of land disturbed or destroyed by wildfire and will be operated by the Association.

Under the terms of the agreement, the total grant amounts to \$35,000,000. The Association received \$10,000,000 from the Province in January, 1999, \$17,000,000 on May 12, 1999, and \$4,000,000 on December 1, 2000. The fourth instalment of \$4,000,000 was

received on April 23, 2002. The agreement 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.

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

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

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

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

a) Reforestation levies received and unexpended by the Province on areas cut under the authority of timber licenses and permits on or after May 1, 1994, but before May 30, 2000 are to be transferred to the Association according to section 143.91 of the Timber Management Regulation. The levies received during the year were \$nil (2006 - \$762,874).

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 \$2,128,869 (2006 - \$4,220,296).

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.

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 specific lands. Additional funds may be paid to the Association from time to time, representing amounts collected by the Minister for the purposes set out in the Agreement. In that event, the Association shall administer all additional funds provided in accordance with the terms of the Agreement. The Term of the Agreement is from February 1, 2005 to March 31, 2010.

6. Commitments

As at March 31, 2007, the Association is committed to fund approved projects with various terms in the following amounts for each program:

	2007	2006
Forest Resource Improvement Program	\$ 25,811,742	\$ 23,906,263
Community Reforestation Program	133,278	177,297
Wildfire Reclamation Program	3,389,711	4,137,994
	<u>\$ 29,334,731</u>	<u>\$ 28,221,554</u>

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

	2007	2006
Forest Resource Improvement Program	\$ 788,326	\$ 843,792
Community Reforestation Program	193,239	112,517
Wildfire Reclamation Program	-	-
	<u>\$ 981,565</u>	<u>\$ 956,309</u>

7. Directors' honoraria

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

	2007	2006
James C. Bocking	\$ 2,325	\$ 2,505
A. David Kiil	2,172	2,725
	<u>\$ 4,497</u>	<u>\$ 5,230</u>

8. Comparative figures

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

Forest Resource Improvement Association of Alberta

Members

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

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