

Financial Statements of

FOREST RENEWAL TRUST

And Independent Auditors' Report thereon

Year ended March 31, 2022



June 13, 2022

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Forest Renewal Trust ("Trust") are the responsibility of the Ontario Ministry of Northern Development, Mines, Natural Resources & Forestry (the "Ministry") and RBC Investor Services Trust as Trustee for the Ministry. The financial position and operations of the Trust, pursuant to the Crown Forest Sustainability Act, are included in the financial statements, which have been prepared by management in accordance with Canadian public sector accounting standards. The statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Management, with the assistance of the Trustee, maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Trust's assets are properly accounted for and adequately safeguarded.

The financial statements have been audited by KPMG LLP, a firm of independent external auditors appointed by the Trust's Committee, whose report follows.

A handwritten signature in black ink, appearing to read 'H. Lougheed', with a large, sweeping flourish at the end.

Hugh Lougheed
Manager Forest Management Policy Section

A handwritten signature in black ink, appearing to read 'Michael Keel', with a large, sweeping flourish at the end.

Michael Keel
Associate, Client Operations, Client Management *

*Representing RBC Investor Services Trust as Trustee for the Ministry of Northern Development, Mines, Natural Resources & Forestry and Forest Renewal Trust.



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INDEPENDENT AUDITORS' REPORT

To the Ontario Ministry of Northern Development, Mines, Natural Resources and Forestry and the Trustee of Forest Renewal Trust

Opinion

We have audited the financial statements of Forest Renewal Trust (the Entity), which comprise:

- the statement of financial position as at March 31, 2022
- the statement of operations for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2022, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Page 3

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 13, 2022

FOREST RENEWAL TRUST

Statement of Financial Position

March 31, 2022, with comparative information for 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,819,225	\$ 10,074,864
Capital funding in transit (note 8)	2,837,630	2,337,319
Accrued investment income	426,453	469,782
Harmonized sales tax recoveries receivable	472,446	377,436
	<u>10,555,754</u>	<u>13,259,401</u>
Investments at fair value (notes 4 and 5)	123,766,926	129,030,198
	<u>\$ 134,322,680</u>	<u>\$ 142,289,599</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 120,311	\$ 163,306
Holdback on Forest Renewal disbursements	316,769	258,083
Due to Forestry Futures Trust (note 8)	767,158	2,634,476
	<u>1,204,238</u>	<u>3,055,865</u>
Net assets:		
Trust settlement	1	1
Net assets available for project disbursements	142,953,309	141,990,921
Accumulated rereasurement losses	(9,834,868)	(2,757,188)
	<u>133,118,442</u>	<u>139,233,734</u>
	<u>\$ 134,322,680</u>	<u>\$ 142,289,599</u>

See accompanying notes to financial statements.

On behalf of the Board:



Trustee

Ontario Ministry of Northern Development, Mines, Natural Resources and Forestry

FOREST RENEWAL TRUST

Statement of Operations

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Investment income:		
Interest (note 7)	\$ 2,375,109	\$ 2,679,827
Net realized gain on investments	385,774	1,696,790
	<u>2,760,883</u>	<u>4,376,617</u>
Expenses:		
Professional fees	128,033	156,564
Trustee and investment management fees (note 8)	334,034	331,211
Audit fee	77,967	101,551
Ontario Ministry of Northern Development, Mines, Natural Resources and Forestry fees (note 8)	70,313	70,313
	<u>610,347</u>	<u>659,639</u>
Excess of investment income over expenses	2,150,536	3,716,978
Forest Renewal capital funding transactions:		
Forest Renewal charges	52,494,027	59,687,676
Forest Renewal disbursements	(53,682,175)	(54,568,702)
Net Forest Renewal capital funding excess (deficiency)	<u>(1,188,148)</u>	<u>5,118,974</u>
Surplus for the year	962,388	8,835,952
Net assets available for project disbursements, beginning of year	141,990,921	133,154,969
Net assets available for project disbursements, end of year	<u>\$ 142,953,309</u>	<u>\$ 141,990,921</u>

See accompanying notes to financial statements.

FOREST RENEWAL TRUST

Statement of Remeasurement Gains and Losses

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Accumulated remeasurement losses, beginning of year	\$ (2,757,188)	\$ (2,611,057)
Change in unrealized gains (losses) attributable to investments	(6,691,906)	1,550,659
Amounts reclassified to the statement of operations:		
Net realized gain on investments	(385,774)	(1,696,790)
Net remeasurement losses	(7,077,680)	(146,131)
Accumulated remeasurement losses, end of year	\$ (9,834,868)	\$ (2,757,188)

See accompanying notes to financial statements.

FOREST RENEWAL TRUST

Statement of Cash Flows

Year ended March 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
Excess of investment income over expenses	\$ 2,150,536	\$ 3,716,978
Item not involving cash:		
Net realized gain on investments	(385,774)	(1,696,790)
Change in non-cash operating working capital:		
Accrued investment income	43,329	200,792
Harmonized sales tax recoveries receivable	(95,010)	(250,322)
Accounts payable and accrued liabilities	(42,995)	895
Holdback on Forest Renewal disbursements	58,686	76,405
Due to Forestry Futures Trust	(1,867,318)	2,455,323
	<u>(138,546)</u>	<u>4,503,281</u>
Capital activities:		
Capital receipts - Forest Renewal charges	51,993,716	57,352,174
Capital disbursements - Forest Renewal disbursements	(53,682,175)	(54,568,702)
	<u>(1,688,459)</u>	<u>2,783,472</u>
Investing activities:		
Purchase of investments	(174,270,157)	(130,395,967)
Net proceeds of investments sold	172,841,523	131,559,923
	<u>(1,428,634)</u>	<u>1,163,956</u>
Increase (decrease) in cash and cash equivalent	(3,255,639)	8,450,709
Cash and cash equivalents, beginning of year	10,074,864	1,624,155
Cash and cash equivalents, end of year	<u>\$ 6,819,225</u>	<u>\$ 10,074,864</u>

See accompanying notes to financial statements.

FOREST RENEWAL TRUST

Notes to Financial Statements

Year ended March 31, 2022

1. Reporting entity:

Pursuant to the Crown Timber Act, R.S.O. 1990, the Forest Renewal Trust (the "Trust") was established by an agreement dated October 4, 1994 for the purpose of managing the funding of silviculture expenses incurred after March 31, 1994 in respect of land where Crown timber has been cut and such other terms and conditions as may be specified by the Ontario Ministry of Northern Development, Mines, Natural Resources and Forestry (the "Ministry"). The Trust settlement amount of \$1 was paid to RBC Investor Services Trust (the "Trustee") (formerly known as "Montreal Trust Company of Canada") by the Crown on that date. On October 17, 1997, the agreement was amended by the First Amending Agreement to bring the Trust arrangement into accord with the Crown Forest Sustainability Act ("CFSA"), 1994, S.O. 1994. The agreement was also amended by the Second Amending Agreement on March 25, 1999, effective January 31, 1998, the Third Amending Agreement with an effective date of April 1, 2000, the Fourth Amending Agreement with an effective date of April 1, 2001, the Fifth Amending Agreement with an effective date of April 1, 2003, the Sixth Amending Agreement with an effective date of April 1, 2009 and the Interim Agreement Amending the Sixth Amending Agreement with an effective date of April 1, 2014. The Trust is domiciled in Canada and its registered office is 155 Wellington Street West, Toronto, Ontario M5V 3L3. RBC Investor Services Trust is the Trustee.

Forest managers, including licensees, are required to pay forest renewal charges and are invoiced for such charges by the Crown on a monthly basis according to the volume of wood harvested and by tree species group. Forest renewal charges are required to be paid to the Minister of Finance who transfers funds to the Trustee, who, in turn, credits the payment to the specific forest management unit accounts in the Trust (note 9).

Throughout the year, forest managers submit claims seeking reimbursement for the costs of eligible silviculture work completed. Forest managers, including licensees, have the option of seeking reimbursement for expenditures they have incurred to carry out the eligible silviculture work or they may request that the Trustee reimburse silviculture contractors directly for the work that has been completed. The Trustee has no duty or obligation to assess the eligibility of costs claimed as it is the responsibility of the Ministry.

The Trust was established by the Ministry to provide a funding mechanism independent of the provincial treasury to fund specific forestry activities, as defined in the CFSA.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

2. Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS").

(a) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Trust's functional currency. All financial information is presented in Canadian dollars and has been rounded to the nearest dollar.

(b) Use of estimates and judgments:

The preparation of the financial statements in conformity with PSAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. These estimates include accrued investment income, inputs used to measure fair value of investments, and accounts payable and accrued liabilities. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

(c) Liquidity format:

The Trust presents its statement of financial position broadly in order of liquidity. Current assets and liabilities are expected to be recovered or settled within 12 months after the reporting date and non-current assets and liabilities are expected to be recovered or settled more than 12 months after the reporting date.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years presented in these financial statements, unless otherwise indicated:

(a) Interest:

Interest income, including interest income from non-derivative financial assets at fair value, is recognized in profit or loss using the effective interest method on an accrual basis. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

(b) Realized gain from financial instruments at fair value:

Realized gain from financial instruments at fair value includes all realized fair value changes, but excludes interest and dividend income. Realized gains are recognized in the statement of operations.

(c) Fees and other expenses:

Fees and other expenses are recognized in profit or loss on an accrual basis when due.

(d) Capital transactions:

Funds received for renewal and silviculture charges are deposited into the Trust and are considered capital receipts at that time or when they are in transit from the Ministry of Government and Consumer Services ("MGCS"). Since January 2018, funds received for renewal charges are initially deposited into a MGCS account and then transferred to the Trust. Reimbursements are considered capital disbursements when they are claimed from the Trustee, as directed by the Ministry.

Capital receipts in transit include Forest Renewal charges received by the MGCS before March 31, 2022, and were in transit to the Trust account.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

3. Significant accounting policies (continued):

(e) Income taxes, harmonized sales tax ("HST") and goods and services tax ("GST"):

The Trust is considered to be an asset of the Crown and, as such, the Trustee, under the advisement of the Ministry, has taken the position that the income earned within the Trust is not subject to income taxes.

According to the Excise Tax Act interpretation, reimbursements paid to Forest License Holders from the Trust are consideration for a taxable supply of silviculture services for GST/HST purposes. As such, claims invoiced by forest managers, including licensees, are subject to GST/ HST, and the Trust, through the Ministry, then files a recovery of an eligible rebate. Accordingly, GST/HST is paid by the Trust and is accounted for with a net offset for GST/HST recoveries.

(f) Financial assets and liabilities:

(i) Financial assets:

The Trust initially recognizes loans and receivables and deposits (capital funding in transit) on the date that they are originated. All other financial assets (including assets designated at fair value) are recognized initially on the trade date at which the Trust becomes a party to the contractual provisions of the instrument.

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction where substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Trust is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Trust has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

3. Significant accounting policies (continued):

The Trust has the following non-derivative financial assets: investments at fair value and loans and receivables:

(a) Investments at fair value:

Investments are designated at fair value if the Trust manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Trust's Statement of Investment Policies and Goals (the "SIPG"). Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Subsequent remeasurement of financial assets measured at fair value are recognized in the statement of remeasurement gains and losses until realized, which are then recognized in the statement of operations. The Trust's bond portfolio comprises its financial assets at fair value. The Trust has elected that all investments will be at fair value as they are managed and evaluated on the basis of fair value.

Realized gains are recorded in the statement of operations, while unrealized gains/losses are recorded through the statement of remeasurement gains and losses.

(b) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise accrued investment income and cash and cash equivalents.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and all deposits with original maturities of three months or less.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

3. Significant accounting policies (continued):

(ii) Financial liabilities:

Financial liabilities are recognized initially on the trade date at which the Trust becomes a party to the contractual provisions in the instrument.

The Trust derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

4. Financial assets and liabilities:

The following table details the categories of financial assets and financial liabilities held by the Trust at the reporting date:

	2022	2021
Assets		
Designated at fair value upon initial recognition:		
Investment in:		
Canada treasury bills	\$ 1,073,527	\$ 1,299,656
Provincial treasury bills	14,171,591	14,590,528
Corporate discount notes under one year	13,930,124	14,269,806
Canada bonds	31,708,842	22,394,675
Provincial bonds	14,254,554	26,993,473
Corporate and foreign bonds and notes over one year	45,589,764	46,448,416
Pooled money market funds	3,038,524	3,033,644
	<u>123,766,926</u>	<u>129,030,198</u>
Cash and cash equivalents	6,819,225	10,074,864
Capital funding in transit	2,837,630	2,337,319
Accrued investment income	426,453	469,782
HST sales tax recoveries receivable	472,446	377,436
	<u>10,555,754</u>	<u>13,259,401</u>
Total assets	\$ 134,322,680	\$ 142,289,599
Liabilities		
Other liabilities:		
Accounts payable and accrued liabilities	\$ 120,311	\$ 163,306
Holdback on Forest Renewal disbursements	316,769	258,083
Due to Forestry Futures Trust	767,158	2,634,476
	<u></u>	<u></u>
Total liabilities, excluding net assets available for project disbursements	\$ 1,204,238	\$ 3,055,865

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

5. Fair value estimation:

Investments recorded at fair value on the Trust's statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by Financial Instruments ("PSAS 3450") and directly related to the amount of subjectivity associated with inputs to fair valuation of these assets, are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset that are not based on observable market data.

The valuation of the Trust's invested assets under the PSAS 3450 hierarchy as at March 31 is as follows:

2022	Level 1	Level 2	Total
Canada treasury bills and other discount notes	\$ –	\$ 29,175,242	\$ 29,175,242
Bonds	–	91,553,161	91,553,161
Pooled money market funds	3,038,523	–	3,038,523
	\$ 3,038,523	\$ 120,728,403	\$ 123,766,926

2021	Level 1	Level 2	Total
Canada treasury bills and other discount notes	\$ –	\$ 30,159,989	\$ 30,159,989
Bonds	–	95,836,565	95,836,565
Pooled money market funds	3,033,644	–	3,033,644
	\$ 3,033,644	\$ 125,996,554	\$ 129,030,198

There were no transfers between levels during the year, and no investments classified as Level 3 were held at each reporting date or during each year.

The investments are actively managed according to the SIPG for the Trust dated October 2013, which includes guidelines with respect to return expectations, asset mix, approved securities, constraints and investment strategies.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

6. Financial instruments and associated risks:

The Trust may be exposed to financial risks as a result of its investment holdings. The Trust's risk management practices include the establishment of investment guidelines, as outlined in the SIPG and regular monitoring of compliance with these guidelines. The Trustee manages the potential effects of these financial risks on the Trust's performance by employing and overseeing portfolio advisors who regularly monitor the Trust's positions, market events and ensure that the investment portfolio is diversified in accordance with investment guidelines.

There have been no changes to exposures to financial risks, or the objectives, policies and processes in place for managing and measuring the risks.

Eligible investments include Canadian entities, such as equities, bonds, debentures, notes or other debt obligations of government agencies or public corporations, guaranteed investment certificates, annuities, cash and money market securities. The Trust's fixed income securities have a quality rating of "A" or better, as determined by a public bond rating agency.

(a) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered with the Trust. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instruments is not backed by an exchange clearing house. The Trust's fixed income investments are primarily in Canadian-issued instruments and are diversified among federal, provincial, corporate and other issuers. All transactions in listed securities are settled or paid for upon delivery using approved brokers. There were no significant concentrations of credit risk in the portfolio in either 2022 or 2021. The maximum credit risk exposure as at March 31, 2022 is \$127,503,455 (2021 - \$132,214,735), which includes investments, accrued investment income, capital funding in transit, and HST recoveries receivable.

The breakdown of the bond investment portfolio by credit ratings is as follows:

Credit rating	2022	2021
AAA	45%	38%
AA	8%	24%
A	47%	38%
BBB	—	—
	100%	100%

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

6. Financial instruments and associated risks (continued):

The breakdown of the money market investment portfolio by credit ratings at March 31 is as follows:

Credit rating	2022	2021
R-1 (high)	40%	58%
R-1 (mid)	34%	28%
R-1 (low)	26%	14%
	100%	100%

(b) Market risk:

Market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market factors, whether those changes are caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in the market. The Trust's investments are carried at fair value with fair value changes recognized through income; all changes in market conditions will directly result in an increase or decrease in net assets. Market price risk is managed by the Trust through the construction of a diversified portfolio of instruments traded on various markets and across various industries, which is actively managed by a third party administrator.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian government, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in Canada resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Trust's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect of these items is not practicable at this time.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

6. Financial instruments and associated risks (continued):

The Trust's investment in fixed income securities is sensitive to interest rate movements. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa. The magnitude of the decline will generally be greater for long-term debt securities than short-term debt securities. An immediate hypothetical 100-basis-point or 1% increase in interest rates, with all other variables held constant, would decrease net assets by \$4,136,499 as at March 31, 2022 (2021 - \$4,793,295).

The Trust also invests in pooled funds, which are tracked against the benchmark index, Dex 91-day Treasury Bill Index. An immediate hypothetical decrease of 10% in the above index will impact the Trust's investments by a loss of \$303,852 at March 31, 2022 (2021 - \$303,364).

(c) Liquidity risk:

Liquidity risk is the risk that the Trust will be unable to meet its obligations as they come due because of an inability to liquidate assets.

The Trust's fixed income portfolio trades in an active market and can be readily sold and the Trust's pooled fund investments can be readily redeemed from the mutual fund company. Although market events could lead to some investment becoming illiquid, the diversity of the Trust's portfolios should ensure that liquidity is available for future payments. The duration of investments are summarized below.

The following tables summarize the fair value of investments by maturity:

2022	Less than 1 year	1 - 3 years	3 - 10 years	Greater than 10 years	Total
Canada treasury bills and other discount notes	\$ 29,175,242	\$ -	\$ -	\$ -	\$ 29,175,242
Bonds	-	20,553,781	66,545,268	4,454,112	91,553,161
Pooled money market funds	3,038,523	-	-	-	3,038,523
	\$ 32,213,765	\$ 20,553,781	\$ 66,545,268	\$ 4,454,112	\$ 123,766,926

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

6. Financial instruments and associated risks (continued):

2021	Less than 1 year	1 - 3 years	3 - 10 years	Greater than 10 years	Total
Canada treasury bills and other discount notes	\$ -	\$ 30,159,989	\$ -	\$ -	\$ 30,159,989
Bonds	-	4,909,454	74,558,736	16,368,375	95,836,565
Pooled money market funds	3,033,644	-	-	-	3,033,644
	\$ 3,033,644	\$ 35,069,443	\$ 74,558,736	\$ 16,368,375	\$ 129,030,198

The investments with maturities greater than 10 years represent callable bonds. Their first call date occurs within 3 - 10 years.

The above investments have varying effective yields of 0.40% to 4.7% (2021 - 0.10% to 5.02%). Interest earned is accrued on a daily basis.

(d) Fair values of financial instruments:

The fair values of the investments are as disclosed in note 5. The fair values of other financial instruments of the Trust, which consist of cash and cash equivalents, accrued investment income, harmonized sales tax recoveries receivable, due to Forestry Futures Trust, capital funding in transit, holdback on Forest Renewal disbursements and accounts payable and accrued liabilities, approximate their carrying values due to the short-term nature of these financial instruments.

(e) Currency risk:

The Trust invests in foreign bonds that are denominated in currencies other than its functional currency. Consequently, the foreign investment portfolio is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Trust's financial assets denominated in currencies other than the Canadian dollars.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

7. Interest income:

	2022	2021
Interest income from financial assets at fair value	\$ 2,304,414	\$ 2,609,421
Interest income from cash and cash equivalents	70,695	70,406
	<u>\$ 2,375,109</u>	<u>\$ 2,679,827</u>

8. Related party information:

The Trust is related to the Trustee, the Ministry and the MGCS in terms of economic interest. The Trust is related to Forestry Futures Trust in terms of common ownership.

The Trust enters into transactions with these entities in the normal course of business and on normal trade terms. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Trustee fees are assessed on the combined average book value of the Trust and Forestry Futures Trust with the resultant charge apportioned to each trust on the basis of its average book value. The trust fee based on the new agreement is a fixed 0.04% based on the average book value of the investments. There have been no changes to the fee structure during the current year. Additional fees include fund administration and reporting for the management unit accounts and master trust, transaction charges and other charges. Total fees paid to the Trustee were \$177,223 (2021 - \$185,234).

Management fees represent a fixed fee incurred by the Trust for account receivable management activities performed by the Ministry. Total management fees paid to the Ministry were \$70,313 (2021 - \$70,313).

As at March 31, 2022, \$767,158 (2021 - \$2,634,476) was payable to Forestry Futures Trust.

The MGCS receives silviculture charges on behalf of the Ministry, which are subsequently transferred into the Trust. As at March 31, 2022, \$2,837,630 (2021 - \$2,337,319) of capital funding was in transit as confirmed with the MGCS.

FOREST RENEWAL TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2022

9. Capital management:

The Trust's capital is represented by its net assets.

The Trust comprises a main trust account ("Master Account"), management unit accounts, and sub-accounts, where applicable for each forest management unit. All Trust charges received and disbursements made are applied to the individual forest management unit accounts. Each forest management unit's account balance is expressed in terms of units of the main trust for the purposes of tracking its share of Trust assets. These units are of equal value and without priority or preference.

Funds received are effectively held in the management unit account until the Trust valuation date, which is the last business day of the month. At that time, the funds are transferred into the Master Account in exchange for units. Disbursements made from each management unit account are funded through the redemption of units of the Master Account using the most recently determined valuation.

The value of each unit of the Trust is determined on a monthly basis based upon the net assets of the Trust. The value of a unit is determined by dividing the aggregate value of net assets of the main trust by the total number of units outstanding prior to the issuance and redemption of units.

The main objective of the Trust is to sustain a certain level of net assets in order to meet the mandate as set out by the CFSA. The Trust is managed by the Trustee and funds are reimbursed to forest managers, including licensees, for eligible silviculture expenses under the direction of the Ministry.

The Trust fulfills its primary objective by adhering to specific investment policies outlined in its SIPG, which is reviewed on a timely basis as needed. The Trustee manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing funds available in accordance with the approved SIPG. An increase in net assets is a direct result of investment income generated by investments held by the Trust and excess of receipts over disbursements made by the Trust.

Forest Renewal charges to the Trust are established by Trust policies, including funding by harvest volume charges on Crown timber that are paid by the forest managers, including licensees.