Consolidated Financial Statements
(Expressed in Canadian dollars)

TREZ CAPITAL YIELD TRUST

Year ended December 31, 2015

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Trez Capital Yield Trust

We have audited the accompanying consolidated financial statements of Trez Capital Yield Trust, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of net income (loss), comprehensive income (loss), changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Trez Capital Yield Trust as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

April 12, 2016
Vancouver, Canada

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Assets			
Cash and cash equivalents		$ 24,709,352	$ 51,807,314
Restricted cash		3,068,992	2,145,479
Accrued interest receivable on promissory notes		523,246	454,919
Other receivables		54,453	264,109
Investments in mortgages	5, 14(c)	332,715,118	328,077,550
Investments in associates and joint ventures	4	29,376,102	26,187,814
Promissory notes receivable	7	2,353,922	2,330,412
Due from related parties	14	2,144,496	7,286,577
Deferred income tax asset	15	308,595	-
Foreclosed properties held for sale	6	675,637	12,635,576
Property under development	8	16,185,978	-
		$ 412,115,891	$ 431,189,750
Equity			
Accumulative other comprehensive income		4,384,582	-
Non-controlling interests	14(i)	2,378,643	-
		$ 6,763,225	$ -
Liabilities			
Accounts payable and accrued liabilities	14(b)	$ 4,795,416	$ 7,357,712
Foreign currency derivatives	17	1,162,082	-
Income tax payable	15	1,632,792	-
Distributions payable on redeemable units	12	10,442,648	9,569,668
Loans payable	10	5,116,108	3,383,877
Mortgage syndication liabilities	5	7,270,878	13,464,425
Mortgage payables	11, 14(f)	-	9,021,331
		30,419,924	42,797,013
Net assets attributable to holders of redeemable units	13	374,932,742	388,392,737
		$ 405,352,666	$ 431,189,750
Net assets attributable to holders of redeemable units:	13		
Class A units		$ 39,755,766	$ 56,674,314
Class F units		213,308,026	223,232,320
Class I units		121,868,950	108,486,103
		$ 374,932,742	$388,392,737

Subsequent events 1

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of the General Partner of the Manager:
Trez Capital Fund Management Limited Partnership:

Director

Director

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Net Income (Loss)
(Expressed in Canadian dollars)

Year ended December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Revenue:			
Interest income		$ 36,341,482	$ 29,731,525
Interest expense on mortgage syndication liabilities		(498,013)	(188,550)
Other income		58,892	12,635
		35,902,361	29,555,610
Expenses:			
Management and incentive fees	14(d)	8,879,617	8,393,200
Provision for mortgage investment losses, net of recoveries	5	2,011,127	930,824
Foreign exchange losses (gains)		1,862,948	(322,050)
Commissions		1,272,810	1,741,400
General and administrative expenses		899,122	647,791
Fair value adjustment on foreclosed properties held for sale	6	-	280,000
		14,925,624	11,671,165
Income from investments in associates and joint ventures	4	4,880,127	6,668,524
Gain on transfer of subsidiary	14(f)	1,192,484	-
		6,072,611	6,668,524
Income from operations		27,049,348	24,552,969
Financing costs:			
Interest expense	10	599,640	456,708
Distributions to holders of redeemable units	12	26,986,170	24,496,261
		27,585,810	24,952,969
Loss before income taxes		(536,462)	(400,000)
Income taxes:			
Current income tax expense	15	1,632,792	-
Deferred income tax recovery	15	(308,595)	-
		1,324,197	-
Loss for the year		$ (1,860,659)	$ (400,000)
Attributable to:			
Holders of redeemable units		$ (2,500,018)	$ (400,000)
Non-controlling interests		639,359	-
		$ (1,860,659)	$ (400,000)

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Comprehensive Income (Loss)
(Expressed in Canadian dollars)

Year ended December 31, 2015, with comparative information for 2014

		2015		2014
Net loss for the year	$	(1,860,659)	$	(400,000)
Other comprehensive income:				
Cumulative translation adjustment on foreign operations		4,384,582		-
Comprehensive income (loss)	$	2,523,923	$	(400,000)
Comprehensive income (loss) attributable to:				
Net assets attributable to holders of redeemable units	$	1,884,564	$	(400,000)
Non-controlling interests		639,359		-
	$	2,523,923	$	(400,000)

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(Expressed in Canadian dollars)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Balance, beginning of year	$ 388,392,737	$ 292,555,583
Loss attributable to holders of redeemable units	(2,500,018)	(400,000)
Contributions and redemptions:		
Issuance of units	46,349,912	113,701,213
Issuance of units as consideration for assets purchased	-	4,761,248
Reinvestment of distributions on redeemable units	14,776,096	12,173,456
Redemptions	(72,085,985)	(34,398,763)
Net contributions (redemptions)	(10,959,976)	96,237,154
Balance, end of year	$ 374,932,742	$ 388,392,737

The accompanying notes are an integral part of these consolidated financial statements.

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31, 2015 with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (1,860,659)	$ (400,000)
Items not involving cash:		
Income from investments in associates and joint ventures	(4,880,127)	(6,668,524)
Gain on transfer of subsidiary	(1,192,484)	-
Provision for mortgage investment loss, net of recoveries	2,011,727	930,824
Fair value adjustment on foreclosed properties	-	280,000
Unrealized gain on foreign currency derivatives	1,162,082	-
Loss on restructuring of mortgage in default	86,916	-
Interest income	(35,843,469)	(29,086,267)
Distributions to holders of redeemable units	26,986,170	24,496,261
Current income tax expense	1,632,792	-
Deferred Income tax recovery	(308,595)	-
Interest received	22,057,987	22,775,565
Changes in non-cash operating working items:		
Other receivables	209,656	(251,681)
Restricted cash	(923,513)	538,168
Accounts payable and accrued liabilities	(2,562,296)	5,070,529
Accrued interest receivable	(68,327)	-
	6,575,587	17,684,875
Investing activities:		
Advances of promissory notes receivable	(23,510)	378,187
Funding of investments in mortgages	(350,636,157)	(428,819,658)
Repayments on investments in mortgages	368,179,558	384,992,128
Acquisition of property under development	(16,185,978)	-
Distributions (contributions) from investment in associates and joint ventures	6,076,421	(6,253,783)
Capital improvements to foreclosed properties held for sale	(5,000)	(441,034)
Proceeds from foreclosed properties held for sale	1,326,584	522,056
Contributions from non-controlling interest	1,739,284	-
	10,471,202	(49,622,104)
Financing activities:		
Interest paid	-	(576,696)
Distributions paid	(11,337,094)	(10,030,944)
Advances (repayments) of loans payable	1,732,231	(4,603,207)
Issuance of units	46,349,912	113,701,213
Redemptions of units	(72,085,985)	(34,398,763)
Due from related parties	(8,803,815)	(5,301,307)
	(44,144,751)	58,790,296
Increase (decrease) in cash and cash equivalents	(27,097,962)	26,853,067
Cash and cash equivalents, beginning of year	51,807,314	24,954,247
Cash and cash equivalents, end of year	$ 24,709,352	$ 51,807,314

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of business:

Trez Capital Yield Trust (the "Trust") is an unincorporated trust which was established under the laws of British Columbia pursuant to a Declaration of Trust dated March 20, 2013 and commenced operations April 1, 2013.

Trez Capital Fund Management Limited Partnership is the Trust's manager (the "Manager"), Trez Capital Limited Partnership is the Trust's mortgage broker (the "Mortgage Broker") and Computershare Trust Company of Canada acts as Trustee.

The Trust has been created for the purpose of generating a stream of income from interests acquired in a portfolio of mortgages related to any and all types of real property within Canada and the United States ("US"). Pursuant to the Declaration of Trust, the legal ownership of the Trust's property is vested in the Trustee and the Trust Unitholders' beneficial interest in the Trust is represented by units. The affairs and administration of the Trust are managed by the Manager.

On March 7, 2016, the Unitholders voted to approve a transition to a non-investment fund primarily in response to fund raising regulatory changes becoming effective April 30, 2016. These changes are administrative in nature. A new Declaration of Trust aligns with the current regulatory requirements, and other trusts managed by the Manager. The change in regulatory regime is not expected to have any impact on the continuing operations of the Trust.

The principal place of business of the Trust is located at 1550-1185 West Georgia Street, Vancouver, British Columbia, V6E 4E6.

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements of the Trust have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Governors on April 12, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis, except for embedded derivative instruments, currency swap arrangements and foreclosed properties held for sale which are measured at fair value.

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Trust. The functional currency of the Trust's US subsidiaries and investments in associates and joint ventures is the US dollar. Accordingly, the financial statements of the Trust's US subsidiaries and investments in associates and joint ventures have been translated into Canadian dollars as follows:

(i) Assets and liability amounts are translated at the exchange rate at the end of each reporting period;

(ii) Amounts included in the determination of earnings is translated at the average exchange rate during the year; and

(iii) Any gains or losses from the translation of amounts determined in (*i*) and (*ii*) above are recognized in other comprehensive income and accumulated in the foreign currency translation reserve, which is a separate account within equity in the consolidated statement of financial position.

(d) Use of estimates and judgments:

The preparation of consolidated financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In making estimates, the Manager relies on external information and observable inputs where possible, supplemented by internal analysis as required. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements are as follows:

(*i*) Investments in mortgages:

The Trust is required to make an assessment of the impairment of investments in mortgages. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary by a material amount.

3. Significant accounting policies:

(a) Basis of presentation:

(*i*) Subsidiaries:

The consolidated financial statements comprise the financial statements of the Trust and subsidiaries controlled by the Trust. Control exists when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements reflect the financial position, results of operations and cash flows of the Trust and its subsidiaries. Intra-group transactions and balances are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets of consolidated subsidiaries not held by the Trust and are presented separately in the consolidated statement of income (loss) and within equity in the consolidated statement of financial position.

The Trust owns and consolidates the following material subsidiaries:

	Province of incorporation	Percentage of ownership
T-816 Government Street LP	British Columbia	60%
Trez NP Investors LP	British Columbia	77%
Trez Onewest Trust	British Columbia	91%
TC Scarborough LP	British Columbia	100%
TC Parkside West Investments LP	British Columbia	100%
TC Laurel Park Investment LP	British Columbia	100%
TC H 2014 Partners Investments LP	British Columbia	100%

The principal business activity of each of the subsidiaries, except for Trez NP Investors LP, is investment in real estate development. The principal business activity of Trez NP Investors LP is investment in mortgages. Refer to note 4 for subsidiaries that invest in joint ventures.

(*ii*) Investments in joint ventures:

The Trust and certain of its subsidiaries have interests in a number of development joint ventures, which are accounted for using the equity method.

The Trust holds investments in other trusts and limited partnerships for the purpose of investing in real estate development projects. In certain cases, the Trust's investments are held through intermediary holding entities.

Where the Trust has assessed that it has joint control over the investees, the investments are initially recognized at cost and are adjusted thereafter for the post-acquisition change in the Trust's share in the investee's net assets. The Trust's share of investee's profit or loss is included in the Trust's consolidated statement of net income (loss).

3. Significant accounting policies (continued):

(a) Basis of presentation (continued):

(*iii*) Investments in associates:

Investments over which the Trust holds significant influence are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of the investee without actual control or joint control of those policies. Under the equity method, the investment is initially recognized at cost and is adjusted thereafter for the post-acquisition change in the Trust's share in the investee's net assets. The Trust's share of investee's profit or loss is included in the Trust's consolidated statement of net income (loss).

The Trust holds investments in associates primarily for the purpose of investing in real estate development projects.

Significant accounting policies of the underlying operating partnerships involved in real estate development projects classified as investments in joint ventures or associates are as follows:

- Properties under development: Properties under development are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less cost to complete the development and selling costs. Costs include all direct development costs and capitalized carrying costs related to holding the property under development, including borrowing costs. The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.
- Sales revenue: Revenue from the sale of properties under development is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, and all material conditions of the sales contract have been met, and at which time all proceeds are received or collectability is reasonably assured.
- Other revenues: The operating partnerships may earn other revenue such as performance fees based on the specific contractual terms of each partnership. These revenues are recorded as earned in accordance with the terms of the respective partnership agreement.

(b) Cash and cash equivalents:

Cash consists of cash held at financial institutions and cash equivalents include securities with maturities of three months or less when purchased.

(c) Restricted cash:

Restricted cash relates to margin deposits made on foreign currency swap transactions.

3. Significant accounting policies:

(d) Foreclosed properties held for sale:

When the Trust obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which is comprised of principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale (“FPHFS”). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Trust uses management’s best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, obtaining property appraisals from independent valuation specialists.

(e) Property under development:

Property under development includes an investment property being developed for a mixed use development.

Costs include all direct development costs and capitalized carrying costs related to holding the property under development, including borrowing costs.

(f) Promissory notes receivable:

Promissory notes are recorded at amortized cost using the effective interest rate method less any impairment.

(g) Redeemable units:

All units of the Trust are redeemable at the Unitholder’s option and accordingly are classified as financial liabilities and presented as “net assets attributable to holders of redeemable units” in the consolidated statement of financial position. Units redeemed are accounted for in the period during which the redemption is effective. Resultant gains on redemption are recognized in the consolidated statement of net income (loss) in the same period.

(h) Revenue recognition:

Interest income is recognized in the consolidated statement of net income (loss) in the period in which it is earned on an effective interest rate basis.

Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (continued):

(i) Foreign currency translation:

Revenue and expenses denominated in foreign currencies are translated into Canadian dollars at the average rate of exchange prevailing for the period.

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange as at the date of the consolidated financial statements.

Assets denominated in foreign currencies under forward currency arrangements are shown at the contractual rates of exchange reflected in the arrangements. Related gains or losses on these arrangements are recognized in the consolidated statement of net income (loss) at their maturities.

For foreign operations that have a functional currency different than that of the Trust, foreign exchange gains or losses on translation of the foreign operations into the Trust's presentation currency is recognized in other comprehensive income.

(j) Distributions on redeemable units:

Distributions to Unitholders on each class of redeemable units are made on a quarterly basis, in arrears. The distribution to be made in represent of the December 31 year end will equal 100% of the Trust's net taxable earnings for the year. Distributions on redeemable units are treated as an expense within the consolidated statement of net income (loss), corresponding with the units' classification as liabilities. Distributions are accrued in the period to which they relate.

(k) Financial instruments:

(*i*) Recognition and classification:

The Trust recognizes a financial instrument in its consolidated statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument.

Financial instruments are classified as one of five categories: fair value through profit and loss ("FVTPL"), loans and receivables, held-to-maturity, available-for-sale or other financial liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not at FVTPL, any incremental direct transaction costs. Transaction costs on FVTPL financial instruments are recognized in profit and loss in the period in which they are incurred.

3. Significant accounting policies (continued):

(k) Financial instruments:

(*i*) Recognition and classification (continued):

The Trust has classified its financial instruments as follows:

Asset / Liability	Classification	Subsequent measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accrued interest receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Promissory notes receivable	Loans and receivables	Amortized cost
Investments in mortgages	Loans and receivables	Amortized cost
Embedded derivatives included in investments in mortgages	FVTPL	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Foreign currency derivatives	FVTPL	Fair value
Distributions payable on redeemable units	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost

Financial instruments subsequently measured at amortized cost are done so using the effective interest method, less any impairment losses. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(*ii*) De-recognition:

(A) Financial assets:

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Trust neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial assets. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Trust is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (*i*) the consideration received (including any new asset obtained less any new liability assumed) and (*ii*) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the consolidated statement of net income (loss).

3. Significant accounting policies (continued):

(k) Financial instruments (continued):

(*ii*) De-recognition:

(A) Financial assets (continued) :

The Trust enters into transactions whereby it transfers mortgage or loan investments recognized on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred mortgage or loan investments or a portion of them. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized. In transactions in which the Trust neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Trust continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In circumstances where the Trust retains all or substantially all risks and rewards of a transferred mortgage, the transferred mortgage is not derecognized and the transferred mortgage is recognized as a mortgage syndication liability on the consolidated statement of financial position.

(B) Financial liabilities:

The Trust derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

(*iii*) Impairment:

The mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset.

The Trust considers evidence of impairment for mortgage and loan investments at both a specific asset and collective level. All individually significant mortgage and loan investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgage and loan investments that are not individually significant are collectively assessed for impairment by grouping together mortgage and loan investments with similar risk characteristics.

In assessing collective impairment, the Trust reviews historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management’s judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

3. Significant accounting policies (continued):

(k) Financial instruments (continued):

(*iii*) Impairment (continued):

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage and loan investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

For financial assets other than investments in mortgages, the Manager assesses at each reporting date whether a financial asset or group of assets is deemed to be impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(l) Accumulative other comprehensive income:

Accumulative other comprehensive income represents the cumulative translation adjustment of foreign operations whose function currency is in US dollars.

(m) Income taxes:

The Trust is a mutual fund trust under the Income Tax Act (Canada). The Trust will allocate to its Unitholders net taxable earnings and net taxable realized capital gains that would otherwise attract Canadian tax in the Trust. Accordingly, no provision for Canadian income taxes will be reflected in the Trust's consolidated financial statements.

The Trust holds certain investments in associates and joint ventures based in the US. Certain of these investments in associates and joint ventures are held by controlled subsidiaries of the Trust that are required to pay income taxes to the US Internal Revenue Service based on its determination of taxable income. Accordingly, current income tax recognized in the consolidated statement of net income (loss) is based on the Company's US taxable income for the year. Current tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantially enacted tax rates that are expected to be in effect when the underlying items are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred income tax assets, such as non-capital loss carryforwards, are recognized to the extent it is probable that taxable profit will be available against which the asset can be utilized.

3. Significant accounting policies (continued):

(n) Future accounting changes**:**

The Trust has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Trust has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

IFRS 9, *Financial Instruments*, ("IFRS 9"):

The IASB issued a new standard, IFRS 9, which will ultimately replace International Accounting Standard 39, *Financial Instruments - Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is available for early application.

IFRS 15, *Revenue Recognition*:

The IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

(o) Comparative information**:**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

4. Investments in associates and joint ventures:

The summary below lists the Trust's investments in associates and joint ventures, their names, types and percentage of ownership:

	2015	2014
Investment in associates:		
Trez WTH Equity LP, a US limited partnership to acquire, hold, manage or dispose of real property in the US, 27.83% (2014 - 27.83%)	$ 538,804	$ 818,310
T Church and Stone Oak Investments LP, a Canadian limited partnership invested in two development projects in Texas, 23.53% (2014 - 23.53%)	959,724	1,326,332
T-NWBP Investments LP, a Canadian limited partnership invested in a development project, 44.61% (2014 - 44.61%)	279,749	6,994,093
TC Logan Park Investments LP, a Canadian limited partnership invested in a development project in Texas, 40.63% (2014 - 40.63%)	4,275,386	2,692,303
TC Beacon Hill LP, a Canadian limited partnership invested in a development project in Texas, 22.50% (2014 - 22.50%)	(52,001)	30,765
Trez NP LP, a Canadian limited partnership invested in a mortgage investment in Canada, 63% (2014 - 63%)	4,739,158	201,389
	10,740,820	12,063,192
Investment in joint ventures:		
Scarborough Forest Ridge Development LP, a US LP invested in a development project in Texas for single-family residential lots, 50% (2014 - 50%)	356,570	1,692,877
Parkside Land West LP, a US LP invested in a development project in Texas for single-family residential lots, 50% (2014 - 50%)	9,710,667	6,092,647
HT Spring Stuebner Land LP, a US LP invested in a development project in Texas comprising 310 single – family residential lots 50% (2014 - 50%)	5,868,554	3,911,294
HT Midtown LP, a US LP invested in a development project in Texas comprising 280 single-family lots 50% (2014 - 50%)	2,699,400	2,427,713
Trez Centro LP, a Canadian LP invested in a development project in British Columbia 50% (2014 - 50%)	91	91
	18,635,282	14,124,622
	$ 29,376,102	$ 26,187,814

4. Investments in associates and joint ventures (continued):

With the exception of Trez Centro LP and Trez NP LP, the investment in associates and joint ventures above have been entered into with established property developers in Western Canada and Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments. The underlying assets of the joint ventures are being developed with the joint venture counterparty acting as lead developer. The lead developer assumes the development risk associated with the projects in that cost overruns are to be borne by them.

In the case of the joint ventures, the Trust, through an affiliated entity, is represented on the respective joint ventures' major decision committee which entitles the Trust's affiliate and the joint venture counterparty to 50% each of the voting rights with respect to the major decisions impacting the outcome of the relevant developments.

The following identifies certain obligations and or commitments in accordance with the terms of the agreements for the respective associates and joint ventures:

- Trez WTH Equity LP: Each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital contributions are subject to the unanimous approval of the limited partners, and shall be funded on a pro-rata basis.
- T Church and Stone Oak Investments LP: In accordance with the provisions of the limited partnership agreement, the Trust made an initial contribution of US$700,000, representing a 13.70% interest. Each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital contributions shall be funded on a pro-rata basis.
- T- NWBP Investments LP: In accordance with the provisions of the limited partnership agreement, the general partner, at its sole discretion, shall offer additional partnership units for sale to limited partners on a pro-rata basis. Any additional units which remain unsubscribed for may be offered to any limited partner or third party as the general partner determines.

4. Investments in associates and joint ventures (continued):

- TC Logan Park Investments LP: In accordance with the provisions of the limited partnership agreement, the Trust made an initial contribution of US$1,900,000, representing a 29.69% interest in the limited partnership. In accordance with the provisions of the limited partnership agreement, each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital shall be funded on a pro-rata basis.

- TC Beacon Hill LP: In accordance with the provisions of limited partnership agreement, each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital contributions are subject to the unanimous approval of the limited partners, and shall be funded on a pro-rata basis.

- Trez NP LP: Trez NP LP invests in a pool of mortgages. During the year, the Trust acquired an additional 73% interest in Trez NP Investors LP from an entity related by virtue of common management increasing its interest to 77%. The Trust previously accounted for the investment in Trez NP Investors LP as a portfolio investment measured at fair value. Trez NP Investors LP is one of the limited partners that invests in Trez NP LP. As a result of acquiring the additional interest in Trez NP Investors LP, the Trust now consolidates Trez NP Investors LP as it has concluded that it controls the entity. As a result of consolidating Trez NP Investors LP, the Trust records its investment in Trez NP LP as an investment in associate as it has significant influence but no on control over the entity.

- Scarborough Forest Ridge Development LP: This investment is held by the consolidated subsidiary, TC Scarborough LP. The Trust is required to contribute a pre-agreed capital contribution of US$1,150,000. In addition, the general partner may request for, and the partners of the joint venture will be obligated to pay, additional capital contributions to be made on a pro-rata basis in accordance with the initial funding ratios should the joint venture require funds in excess of amounts available from revenues and reserves in order to pay the partnership expenses set forth in a development budget and/or to pay other permitted costs as they become due (as such terms are defined). Additional contributions in excess of the foregoing are subject to the approval of each partner.

- Parkside Land West LP: This investment is held by the consolidated subsidiary, TC Parkside West Investments LP. The Trust is required to contribute a pre-agreed capital contribution of US$6,190,000 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such terms are defined). These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venturer will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

4. Investments in associates and joint ventures (continued):

- HT Spring Stuebner Land LP: This investment is held by the consolidated subsidiary, TC Laurel Park LP. The Trust is required to contribute a pre-agreed capital contribution of US$3,423,550 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such capitalized terms are defined). These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venturer will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

- HT Midtown LP: This investment is held by the consolidated subsidiary, TC H 2014 Partners Investments LP. The Trust is required to contribute a pre-agreed capital contribution of US$2,154,000 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such capitalized terms are defined). These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venturer will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

- Trez Centro LP: This investment is held by the consolidated subsidiary, Trez OneWest Trust. In accordance with the provisions of the limited partnership agreement, the Trust together with a Trez managed fund are required to advance a pre-agreed loan amount of $14,000,000 secured by first mortgage on the property, bearing interest at 7% per annum. In addition, the general partner may request for, and the limited partners of the joint venture will be obligated to pay, additional capital contributions to be made on a pro-rata basis in accordance with initial funding ratios should the joint venture require funds in excess of amounts available from revenues and reserves in order to pay cost overruns to any operational budget that has been approved by the general partner. Additional capital contributions are subject to approval by resolution of the limited partners.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

4. Investments in associates and joint ventures (continued):

Investments in associates – significant influence:

The summary below shows 100% of the investees' total assets, total liabilities, revenue, expenses and net income on aggregate basis for investments in associates.

	2015	2014
Total assets	$ 25,541,454	$ 32,832,841
Total liabilities	2,389,792	1,082,210
Revenue	7,664,702	14,990,130
Expenses	3,831,793	452,007
Net income	3,832,909	14,538,123

During the year ended December 31, 2015, the Trust recorded income from its equity accounted investments in associates of $1,220,476 (2014 - $6,409,582). As at December 31, 2015, the Trust's total investment in associates in which the Trust has significant influence is $10,740,820 (2014 - $12,063,192).

Investments in joint ventures:

The summary below shows 100% of the investees' total assets, total liabilities, revenue, expenses and net income on aggregate basis for its joint ventures.

	2015	2014
Total assets	$ 111,990,458	$ 90,446,646
Total liabilities	75,109,633	64,637,480
Revenue	32,654,403	2,731,045
Expenses	23,726,651	2,165,260
Net income	8,927,753	565,785

During the year ended December 31, 2015, the Trust recorded its share of income from joint ventures of $3,659,651 (2014 - $258,942). As at December 31, 2015, the Trust's total investment in joint ventures is $18,635,282 (2014 - $14,124,622).

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

5. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

	2015		2014	
Property type	Number	Amount	Number	Amount
Industrial	22	$ 111,903,594	20	$ 93,109,869
Office	14	23,742,546	14	27,816,803
Residential construction	47	157,687,100	49	135,971,706
Retail	9	27,456,171	7	35,968,842
Other	1	2,442,029	3	18,778,360
	93	323,231,440	93	311,645,580
Less provision for mortgage investment loss		(2,011,727)		-
		321,219,713		311,645,580
Mortgage syndication liabilities		7,270,878		13,464,425
		328,490,591		325,110,005
Accrued interest		4,224,527		2,967,545
Investments in mortgages	93	$ 332,715,118	93	$ 328,077,550

	2015		2014	
Location	Number	Amount	Number	Amount
Alberta	50	$ 208,516,887	42	$ 171,097,923
British Columbia	8	32,462,604	12	45,203,714
Saskatchewan	1	1,857,034	1	550,000
Quebec	1	1,040,000	3	4,994,142
Ontario	13	31,919,748	18	74,568,549
Manitoba	1	2,700,000	-	-
Nova Scotia	1	3,417,068	1	3,415,781
Texas	18	46,577,250	16	25,279,896
Total mortgages	93	$ 328,490,591	93	$ 325,110,005

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

5. Investments in mortgages (continued):

The following table presents the reconciliation of mortgages as at December 31, 2015 and 2014:

	Note	2015	2014
Investments in mortgages, beginning of year		$ 328,077,550	$ 267,469,744
Purchase of mortgages, in exchange for units		-	3,215,677
Funding of investments in mortgages		350,636,157	429,575,497
Transfer from promissory notes receivable	14(a)	13,575,326	-
Interest capitalized to investments in mortgages		12,460,173	5,900,665
Principal payments on investments in mortgages		(368,179,558)	(384,992,128)
Increase (decrease) in mortgage syndication liabilities		(6,193,548)	9,432,504
Decrease in embedded derivatives		-	(755,839)
Foreclosed properties reclassified as mortgage investments	14(f)	3,180,079	-
Mortgage reclassified as foreclosed properties, net of allowance		-	(1,464,970)
Provision for mortgage investment loss		(2,011,127)	(930,824)
Loss on restructuring of mortgage in default		(86,916)	-
Increase in accrued interest		1,256,982	627,224
Investments in mortgages, end of year		$ 332,715,118	$ 328,077,550

All mortgages, except for the mortgage under the CMBS program as discussed below are conventional uninsured mortgages which contain a prepayment option, whereby the borrower may repay the principal and accrued interest, at any time prior to maturity without penalty or yield maintenance.

At December 31, 2015, the Trust is invested in one loan at an effective interest rate of 4.17%, which matures in September 2024 that is intended to be held for short term, as the Trust will hold the investment until it can be funded under a CMBS program led by Trez Commercial Finance Limited Partnership (“TCF”), a related party.

(a) Mortgage syndication liabilities:

The Trust has entered into certain mortgage participation agreements with third party lenders, whereby, the third party lenders take the senior position and the Trust retains the subordinated position, all of which is secured by first mortgage positions. As a result, the senior lenders’ position is recorded as a mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the consolidated statement of net income (loss). The Trust also retains an option, not the obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders’ share together with accrued interest.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its consolidated statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is $7,270,878 (2014 - $13,464,425).

5. Investments in mortgages (continued):

(b) Mortgages in default:

As at December 31, 2015, the Trust had four mortgages with total carrying amounts of $15,482,249 that were in default and/or past their contractual due dates (2014 – six with total carrying amounts $25,604,473). Mortgages that are in default are not provided against if they are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest.

The following mortgages were in default at December 31, 2015:

(*i*) A mortgage with a carrying value of $10,668,842 (2014 - $7,941,000) was acquired as part of an asset purchase agreement in 2013 at its fair value. Management expects to recover the full amount of the loan based on the fair value of the security on the loan and no provision for credit loss has been recorded.

(*ii*) A mortgage with a carrying value of $1,800,672 (2014 - $1,844,455) was in default since November 2015. Management expects to recover the full amount of the loan based on the fair value of the security on the loan and no provision for credit loss has been recorded.

(*iii*) A mortgage with a carrying value of $1,001,008 (2014 - $4,585,000) was in default since November 2013. The security on the mortgage was sold in 2015 and $3,866,00 was repaid. The remaining amount as at December 31, 2015 was paid subsequent to year-end upon release of the final amount held in trust by lawyers.

(*iv*) A mortgage with a carrying value of $2,011,727 (2014 - $1,915,000) has been fully provided for as the Trust does not expect to recover any proceeds based on the fair value of the security as the Trust's mortgage is behind a 1st mortgage with another financial institution.

(*v*) Subsequent to December 31, 2015, a borrower defaulted on a first mortgage in the amount of $9,528,000 (2014 - $20,000,000). The Manager estimates the fair value of the security is sufficient to cover the outstanding principal and accrued interest.

Management has estimated that the proceeds recoverable from the underlying securities on all loans is sufficient to support the carrying values of the mortgages except for a mortgage described in 5(b)(iv). All mortgages are secured by the real property to which they relate.

During 2015, three of the loans that were past their contractual due dates at December 31, 2014 were resolved and three remain in default of their terms.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

5. Investments in mortgages (continued):

(c) Provision for mortgage investment loss :

The changes in the provision for mortgage investment loss during the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Balance, beginning of year	$ -	$ 69,176
Acquired, from purchase of investments in mortgages	-	-
Provision for mortgage investments loss, net of recoveries	2,011,727	930,824
Allowance for mortgage investment reclassified to FPHFS	-	(1,000,000)
Balance, end of year	$ 2,011,727	$ -

(d) Profit participation mortgages:

Included in the investments in mortgages are certain profit participation mortgages which, in addition to the interest at a stipulated rate, provides the Trust with an entitlement to future profits from the projects as set in the terms of the mortgage agreement. The profit participation features are considered embedded derivatives and are recognized at fair value with changes in fair value reported in the consolidated statement of net income (loss). The fair value of the embedded derivatives at December 31, 2015 is $407,916 (2014 - $317,332).

As at December 31, 2015 and 2014, the Trust had the following mortgages with profit participation features:

	2015		2014	
	Number	Amount	Number	Amount
Profit participation mortgages	5	$ 32,710,216	5	$ 15,242,625

Management has estimated the fair value of the embedded derivative based on a probability weighted average of management's best estimate of the eventual profits to be realized and discounted using a risk-free interest rate.

(e) Schedule of maturity of investments in mortgages:

Principal payments, net of mortgage syndication liabilities, are due based on contractual maturities of each loan as follows:

Maturity period	Number	Amount
Past due	4	15,482,249
2016	55	198,200,712
2017	29	91,444,622
2018 and beyond	5	18,103,857
	93	$ 323,231,440

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

6. Foreclosed properties held for sale ("FPHFS"):

As at December 31, 2015, there are two FPHFS (2014 - three) which are recorded at their fair value of $675,637 (2014 - $12,635,576). The changes in the FPHFS during the years end December 31, 2015 and were as follows:

	2015	2014
Balance, beginning of year	$ 12,635,576	$ 2,510,296
Capital improvements	5,000	441,034
Proceeds on sale of foreclosed properties	(1,326,584)	(522,055)
Additions to FPHFS	-	10,486,301
Reduction of FPHFS on transfer of subsidiary (note 14(f))	(10,638,355)	-
Fair market value adjustment	-	(280,000)
Balance, end of year	$ 675,637	$ 12,635,576

7. Promissory notes receivable:

	2015	2014
Secured, demand promissory note due from a private entity bearing interest at 8% per annum	2,208,602	2,208,602
Unsecured, USD demand promissory note due from a related entity bearing interest at 10% per annum (2015 - US$105,000; 2014 - US$105,000)	145,320	121,810
	$ 2,353,922	$ 2,330,412

8. Property under development:

Property under development represents a development in Victoria, BC held in a limited partnership that the Trust has determined it controls. The Trust owns 60% of the units in the limited partnership. The following costs were included in the amounts capitalized with respect to the development during the year ended December 31, 2015:

	2015	2014
Land	$ 16,185,978	$ -

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

9. Bank indebtedness:

The Trust has a revolving demand loan with a Canadian bank providing for borrowings up to $30,000,000 (2014 - $30,000,000) by way of direct advances. The amount available under the loan is further limited by a margin requirement. Interest is calculated at the bank's prime rate plus 1.5% per annum and a standby fee is calculated on the undrawn portion of the loan at 0.33% per annum.

The credit facility has financial tests and other covenants with which the Trust must comply. The Trust shall not, without the prior written consent of the bank: (a) permit its ratio of bank debt to tangible net worth at any time to exceed 0.25 to 1.00; or (b) permit its tangible net worth at any time to be less than $100,000,000; (c) permit its ratio of debt to EBITDA on a rolling 12 month basis to at any time exceed 3.00 to 1.00; or (d) permit its interest coverage ratio to be less than 3.00 to 1.00. These covenants place restrictions on, among other things, the ability of the Trust to incur additional indebtedness, and to sell or otherwise dispose of assets. During the year, the Trust was in compliance with all such covenants.

The credit facility is collateralized by a general security agreement representing a fixed and floating charge on all current and future mortgages receivables and all other accounts and assets of the Trust and an assignment of the Trust's beneficial interest in all mortgages held.

As at December 31, 2015 and 2014, no amounts were drawn down on the credit facility.

10. Loans payable:

	2015	2014
US dollar demand loan from a private investor, bearing interest at 5.00% per annum, repayable on demand upon 30 days’ notice (2015 - US$1,074,500; 2014 - US$564,500)	$ 1,487,108	$ 654,877
Demand loan from a private investor, bearing interest at 5.00% per annum, repayable on demand upon 30 days’ notice	3,629,000	2,729,000
Total loans payable	$ 5,116,108	$ 3,383,877

During the year, the Trust incurred interest charges of $599,640 (2014 - $456,708) relating to loans payable, including $203,396 (2014 - $251,709) from companies related to the Manager through common management.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

11. Mortgages payable:

	2015	2014
Mortgage payable (a)	$ -	$ 3,818,308
Mortgage payable to related parties (b)	-	$ 5,203,023
	$ -	$ 9,021,331

The mortgage payable and mortgage payable to related parties relate to mortgages on a foreclosed property held for sale by the Trust (note 6).

(a) Mortgage payable related to a first mortgage due to a third party secured by a first charge. The interest rate charged on the mortgage was the greater of prime plus 2% or 5% per annum which matured on October 1, 2015.

(b) Mortgage payable due to related parties includes an amount of $nil (2014 - $4,775,826) related to the same first mortgage described in (a) above in which a related entity by virtue of common management participates in the first mortgage with a junior position to the third party and an amount of $nil (2014 - $427,197) related to a second mortgage due to a related entity by virtue of common management secured by a second charge. The interest rate charged on the second mortgage was 8% per annum.

On September 30, 2015, the limited partnership that held the mortgage payables was assigned to a related entity by virtue of common management. Refer to note 14(f) for further details.

12. Distributions payable to holders of redeemable units:

The Trust makes distributions totaling 100% of the net taxable earnings to Unitholders of each class on an annual basis. Distributions in excess of net earnings are recorded as advances to Unitholders which are repaid by way of reducing the subsequent year's distributions or from subsequent retractions.

Distributions allocable to each class of units differs as a result of the deduction of the amounts payable quarterly in respect of 1.0% per annum trailer fee, as defined in the Declaration of Trust, for the Class A Units and the lower administration fee payable in respect of the Class I Units.

For the year ended December 31, 2015, the Trust had declared distributions totaling $26,986,170 (2014 - $24,496,261) of which $14,776,096 (2014 - $12,173,455) were reinvested.

As at December 31, distributions payable on redeemable units are as follows:

	2015	2014
Cash paid out subsequent to the year	$ 7,145,064	$ 4,372,494
Reinvested as trust units	3,297,584	5,197,174
	$ 10,442,648	$ 9,569,668

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

13. Redeemable units, representing net assets attributable to holders of redeemable units:

As at December 31, 2015 and 2014, there were an unlimited number of Class A Units, Class F Units and Class I Units authorized.

The holder of Class A Units, Class F Units and Class I Units (collectively, the “Units”) are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder upon 30 days’ notice in increments of not less than $5,000. If notice is received by the Manager, the redemption will occur within thirty days subsequent to the receipt of the redemption notice. Redemptions may be subject to a 1.0% discount if units are redeemed prior to their one year anniversaries.

All classes of units have the same objectives, strategies and restrictions, but differ with respect to one or more of their features, such as fees and distributions. The Trust’s Units do not meet the exception criteria in IAS 32 for classification as equity due to the redemption terms of the Units and the dissimilarity of features between classes. As a result, the Units have been reclassified as financial liabilities under IFRS.

Reconciliation of Units:

	2015		2014	
Class A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	5,673,268	$ 56,674,314	3,564,682	$ 35,646,826
Decrease in net assets attributable to redeemable units, from operations	-	(265,088)	-	(58,368)
Issued, as consideration for asset purchase	-	-	476,125	4,761,248
Issued for cash	322,955	3,229,553	2,005,944	20,059,441
Issued for reinvested distributions	174,491	1,744,905	147,899	1,478,988
Redeemed for cash	(2,162,792)	(21,627,918)	(521,382)	(5,213,821)
Issued and outstanding, end of year	4,007,922	$ 39,755,766	5,673,268	$ 56,674,314

	2015		2014	
Class F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	22,346,222	$ 223,232,320	19,299,554	$ 192,995,540
Decrease in net assets attributable to redeemable units, from operations	-	(1,422,319)	-	(229,904)
Issued, as consideration for asset purchase	-	-	-	-
Issued for cash	2,427,996	24,279,958	5,187,568	51,875,682
Issued for reinvested distributions	872,254	8,722,536	777,594	7,775,944
Redeemed for cash	(4,150,447)	(41,504,469)	(2,918,494)	(29,184,942)
Issued and outstanding, end of year	21,496,025	$ 213,308,026	22,346,222	$ 223,232,320

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

13. Redeemable units, representing net assets attributable to holders of redeemable units (continued):

Reconciliation of Units (continued):

	2015		2014	
Class I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	10,859,783	$ 108,486,103	6,391,322	$ 63,913,217
Decrease in net assets attributable to redeemable units, from operations	-	(812,611)	-	(111,728)
Issued, as consideration for asset purchase	-	-	-	-
Issued for cash	1,884,040	18,840,401	4,176,609	41,766,090
Issued for reinvested distributions	430,866	4,308,655	291,852	2,918,524
Redeemed for cash	(895,360)	(8,953,598)	-	-
Issued and outstanding, end of year	12,279,329	$ 121,868,950	10,859,783	$ 108,486,103

	2015		2014	
Total	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	38,879,273	$ 388,392,737	29,255,558	$ 292,555,583
Decrease in net assets attributable to redeemable units, from operations	-	(2,500,018)	-	(400,000)
Issued, as consideration for asset purchase	-	-	476,125	4,761,248
Issued for cash	4,634,991	46,349,912	11,370,121	113,701,213
Issued for reinvested distributions	1,477,611	14,776,096	1,217,345	12,173,456
Redeemed for cash	(7,208,599)	(72,085,985)	(3,439,876)	(34,398,763)
Issued and outstanding, end of year	37,783,276	$ 374,932,742	38,879,273	$ 388,392,737

14. Related party transactions:

The Trust invests in mortgages alone or on a participation basis with parties related to the Manager. Titles to mortgages are held by Computershare Trust Company of Canada, on behalf of the beneficial owners of the mortgages. In addition, certain duties are performed by the Mortgage Broker. The Mortgage Broker is related to the Manager and the Trust through common control. In cases where mortgages are held on a participation basis:

- The Trust's rights are as outlined in the Declaration of Trust and a Mortgage Participation and Servicing Agreement with the Mortgage Broker.
- Pursuant to this Mortgage Participation and Servicing Agreement, the Mortgage Broker administers and services the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's loan originator, underwriter, servicer and syndicator.

14. Related party transactions (continued):

- The Mortgage Broker performs certain duties including registering the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.
- The Mortgage Broker delivers cash payments for interest and principal to the Trustee.

The Trust is managed by the Manager pursuant to the Declaration of Trust, a summary of which is set out in the most current Confidential Offering Memorandum. Certain of the Manager's duties may be performed by a company or companies related to the Manager through common control.

The Manager is responsible for the employment expenses of its personnel, rent and other office expenses. The Manager is not responsible for any taxes payable by the Trust or to which the Trust may be subject. The Trust is liable to the Manager for all expenses incurred in the management of the Trust except as previously noted.

The following are related party transactions not disclosed elsewhere in these financial statements:

(a) Due from related parties:

Due from related parties at December 31, 2015 includes $5,118 (2014 - $nil) distribution receivable from a Trez managed fund, $15,849 (2014 - $15,042) for certain reimbursable expenses and $nil (2014 - $1,806,811) cash held by the Mortgage Broker for principal and interest payments on mortgages not distributed to the Trust.

Also included in due from related parties is $nil (2014 - 5,464,724) for funds advanced on a foreclosed property held by parties related by common management and control. These advances were converted into an 8.0% note receivable and subsequently reclassified to investments in mortgage as at December 31, 2015. As at December 31, 2015, the amount of this mortgage is $13,575,326 with accrued interest of $753,227 and is included in investments in mortgages on the consolidated statement of financial position.

(b) Unfunded capital call and initial subscription in investments:

Accounts payable and accrued liabilities includes $178 (2014 - $207,183) which represents unfunded capital call and initial subscription in investments in associates.

(c) Transfer of investments in mortgages:

The Trust generally invests in an interest in a mortgage at the time the mortgage is funded. However, at any time during the term of the mortgage, it may acquire an interest from or sell its interest in a mortgage to parties related to the Manager, Trustee and Mortgage Broker. Purchases from and sales to related parties are transacted at unpaid principal plus accrued interest due at the date of the transaction which, in the opinion of the Manager, represent the estimated fair values of the related mortgages.

During the year ended December 31, 2015, the Trust purchased investments in mortgages of $41,148,232 (2014 - $5,841,773) and sold investments in mortgages of $241,850,756 (2014 - $128,372,836) to entities under common management.

Included in mortgages purchased from related entities are $968,800 of mortgages that contain profit participation features and included in mortgages sold to related entities are $4,002,140 of mortgages that contain profit participation features.

14. Related party transactions (continued):

(d) Management and incentive fees:

Pursuant to the terms and conditions of the Declaration of Trust, the Manager in entitled to receive from the Trust in respect of each class of units an annual fee (the "Management Fee") payable quarterly. For Class A Units and Class F Units this is equal to 1.5% of the proportionate share of the average gross assets of the Trust plus applicable taxes. For Class I Units this is equal to a percentage, that is negotiated between the Manager and the Unitholder, of the proportionate share of the average gross assets of the Trust plus applicable taxes. The average gross assets of the Trust are calculated using a simple moving average of the month end value of all assets, excluding non-derecognized loan transfer, of the Trust. For each class of units of the Trust, the Manager also receives an additional fee (the "Incentive Fee") equal to 10% of net earnings and capital gains but prior to the deduction for the Incentive Fee, payable annually.

During the year ended December 31, 2015, the Trust incurred Incentive and Management Fees of $2,924,430 (2014 - $2,932,116) and $5,955,187 (2014 - $5,461,084), respectively, payable to the Manager. As at December 31, 2015, $4,385,939 (2014 - $6,588,611) remained outstanding, and is included in accounts payable and accrued liabilities.

(e) Co-investment in mortgages:

The Trust has invested in a mortgage portfolio with a balance at December 31, 2015 of $332,715,118 (2014 - $328,077,550), virtually all of which are made on a participation basis with related parties.

(f) Assignment of units in a related entity:

On September 30, 2015, the Trust assigned all of its units in a limited partnership to an entity related by common management for $nil proceeds. The Trust previously consolidated the limited partnership which held a cash flow generating property that was foreclosed upon by the Trust due to a third party borrower defaulting on the mortgage. In addition, the limited partnership held a first mortgage and a second mortgage due to the Trust which was previously eliminated upon consolidation. Participants of the first mortgage were a third party and an entity related by common management. As at December 31, 2014, the amount due to the third party was $3,818,308 and the amount due to the related entity was $5,203,023. As at December 31, 2015, the second mortgage in the amount of $3,180,079 is now included in investments in mortgages with interest receivable of $311,266 on the consolidated statement of financial position and interest recognized on the mortgage from October 1, 2015 to December 31, 2015 was $88,742. The Trust recognized an accounting gain of $1,192,484 on the assignment of its investment in the limited partnership as the net assets of the limited partnership was in a deficit position at the date of the transaction. From January 1, 2015 to September 30, 2015, the Trust recorded $505,917 (2014 - $155,776) in net loss from the limited partnership during the year when it was consolidated by the Trust.

14. Related party transactions (continued):

(g) Land development mortgages:

During the year, the Trust invested in three secured financing arrangements to provide financing for lot banking developments in the state of Texas, USA. Subsequently, the Trust sold its investment in all three arrangements to an entity related by common management for $3,673,718 which was determined to be the fair value of the arrangements on the date of the transaction. As at December 31, 2015, included in due from related parties is $929,755 relating to the sale of the investment to the related entity.

(h) Disposition of subsidiary:

During the year, the Trust invested in a real estate development in Texas, USA. Subsequently, the Trust sold its investment to an entity related by common management for $1,816,903 which was determined to be the fair value on the date of the transaction. Included in due from related parties are advances made by the Trust to a related entity by virtue of common management in the amount of $1,193,774 to fund a lot development project in the state of Texas.

(i) Non-controlling interest:

Included in non-controlling interest on the consolidated statement of financial position is $1,614,642 which is held by entities related to the Manager by common ownership. The non-controlling interest relates to the Trust's investments in the joint ventures of Parkside Land West LP and HT Spring Stuebner LP (note 4) of which the non-controlling interest is entitled to 35% of the distributable cash flows from the two joint ventures and to the 23% non-controlling interest of Trez NP Investors LP. During the year ended December 31, 2015, $639,359 of net income has been allocated to the non-controlling interest for its share of the net income of the two joint ventures and Trez NP Investors LP.

(j) Co-investment in associates and joint ventures:

As at December 31, 2015, the Trust has co-invested in certain associates and joint ventures investments with the owners of the Manager and their close family members and other Trez managed funds which are related parties by virtue of common management, as follows:

- As at December 31, 2015, the owners of the Manager and their close family members own 39.0% (2014 – 39.0%) of the units of Trez WTH Equity LP and other Trez managed funds own 17.0% (2014 – 17.0%) of the units of Trez WTH Equity LP.
- As at December 31, 2015, the owners of the Manager and their close family members own 42.0% (2014 – 42.0%) of the units of T- NWBP Investments LP.
- As at December 31, 2015, the owners of the Manager and their close family members own 7.8% (2014 - 7.8%) of the units of TC Logan Park Investments LP.

14. Related party transactions (continued):

(j) Co-investment in associates and joint ventures (continued):

- As at December 31, 2015, the owners of the Manager and their close family members own 13.5% (2014 - 13.5%) of the units of T Church and Stone Oak Investments LP and other Trez managed funds own nil (2014- 10.0%) of the units of T Church and Stone Oak Investments LP.
- As at December 31, 2015, Trez managed funds own 9.0% (2014 – 9.0%) of the units of Trez Centro LP.
- As at December 31, 2015, the owners of the Manager and their close family members own 12.6% (2014 – 12.6%) of the units of Trez NP Investors LP and other Trez managed funds own 7.2% (2014 – 7.2%) of the units of Trez NP Investors LP.

15. Income taxes:

The Trust is a mutual fund trust under the *Income Tax Act (Canada)*. The Trust will allocate to its Unitholders net earnings and net realized capital gains that would otherwise attract tax in the Trust. Accordingly, no provision for Canadian income taxes will be reflected in the Trust's consolidated financial statements.

During the year ended December 31, 2015, the Trust has recorded current tax expense of $1,632,792 (2014 - $nil) and deferred income tax recovery of $308,595 (2014 - $nil) relating to US income taxes owing for certain consolidated US subsidiaries that hold investments in associates and joint ventures based in the US. Deferred income tax recovery relates to temporary differences on the tax and accounting basis of properties under development in the respective investments.

16. Fair value measurements:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The carrying value of all of the Trust’s financial instruments approximates their fair value.

The carrying values of financial assets and financial liabilities not measured at fair values, such as cash, restricted cash, accrued interest receivable, other receivables, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, distributions payable on redeemable units, and loans payable approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. The carrying values of the investments in mortgages and mortgage syndication liabilities, approximate their fair values because the Manager does not expect any significant changes in interest rates, foreign exchange risk or credit risk.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Trust’s assets or liabilities that are measured at fair value or for which fair value disclosure is required. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

16. Fair value measurements (continued):

The three levels of the fair value hierarchy are as follows:

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

	Carrying value			
December 31, 2015	Loans and receivable	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value				
Investments in mortgages, including mortgage syndication liabilities	$ 332,307,202	$ -	$ -	$ 332,307,202
Cash and cash equivalents	24,709,352	-	-	24,709,352
Restricted cash	3,068,992	-	-	3,068,992
Accrued interest receivable	523,246	-	-	523,246
Other receivables	54,453	-	-	54,453
Due from related parties	2,144,496	-	-	2,144,496
Promissory notes receivable	2,353,922	-	-	2,353,922
Assets measured at fair value				
Embedded derivatives, included in profit participation mortgages	-	407,916	-	407,916
Foreclosed properties held for sale	-	675,637	-	675,637

	Carrying value			
December 31, 2015	Loans and receivable	FVTPL	Other financial liabilities	Fair value
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	-	-	4,795,416	4,795,416
Income tax payable	-	-	1,632,792	1,632,792
Distributions payable on redeemable units	-	-	10,442,648	10,442,648
Loans payable	-	-	5,116,108	5,116,108
Mortgage syndication liabilities	-	-	7,270,878	7,270,878
Net assets attributable to holders of redeemable units	-	-	374,932,742	377,832,760
Financial liabilities measured at fair value				
Foreign currency derivatives	-	1,162,082	-	1,162,082

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

16. Fair value measurements (continued):

December 31, 2014	Carrying value Loans and receivable	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value				
Investments in mortgages, including mortgage syndication liabilities	$ 327,760,218	$ -	$ -	$ 327,760,218
Cash and cash equivalents	51,807,314	-	-	51,807,314
Restricted cash	2,145,479	-	-	2,145,479
Accrued interest receivable	454,919	-	-	454,919
Other receivables	264,109	-	-	264,109
Due from related parties	7,286,577	-	-	7,286,577
Promissory notes receivable	2,330,412	-	-	2,330,412
Assets measured at fair value				
Embedded derivatives, included in profit participation mortgages	-	317,332	-	317,332
Foreclosed properties held for sale	-	12,635,576	-	12,635,576

December 31, 2014	Carrying value Loans and receivable	FVTPL	Other financial liabilities	Fair value
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	-	-	7,357,712	7,357,712
Distributions payable on redeemable units	-	-	9,569,668	9,569,668
Loans payable	-	-	3,383,877	3,383,877
Mortgage syndication liabilities	-	-	13,464,425	13,464,425
Mortgage payable	-	-	9,021,331	9,021,331
Net assets attributable to holders of redeemable units	-	-	388,792,737	388,792,737

The valuation techniques and inputs used for the Trust's financial instruments are as follows:

(*i*) Investments in mortgages and mortgage syndication liabilities:

There is no quoted price in an active market for the mortgage investments or mortgage syndication liabilities. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments approximate their carrying value given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments is based on level 3 inputs.

16. Fair value measurements (continued):

(*ii*) Embedded derivatives:

Included in the investments in mortgages are certain profit participation mortgages. The valuation techniques and inputs used to fair value the embedded derivatives are described in note 5. The fair value of embedded derivatives is based on the use of level 3 inputs.

(*iii*) Foreign currency derivatives:

The Trust has entered into foreign exchange contracts to mitigate the impact from fluctuations in foreign exchange rates. The Manager determines the fair value of foreign currency derivatives with reference to quotations from third party derivative dealers and accepts the amount as fair value for the derivatives. As a result, the fair value of foreign currency derivatives is based on level 2 inputs.

(*iv*) Other financial assets and liabilities:

The fair values of cash, restricted cash, accrued interest receivable, other receivables, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, distributions payable on redeemable units, and loans payable approximate their carrying value due to their short-term maturities.

(*v*) Net assets attributable to holders of redeemable units:

The Trust routinely redeems and issues redeemable units at $10 per unit. Accordingly, the fair value of the net assets attributable to the holders of redeemable units has been calculated at $10 per unit and is based on level 2 inputs

(*vi*) Foreclosed properties held for sale:

The Manager makes its determination of the fair value of foreclosed properties held for sale using the following:

- Direct Capitalization Method. This valuation method is based on stabilized net operating income ("NOI") divided by an overall capitalization rate. Stabilized NOI is based on the location, type and quality of the property and supported current market rents for similar properties, adjusted for estimated vacancy rates and expected operating costs. Capitalization rate is based on location, size and quality of the property taking into account market data at the valuation date. As such, the fair value determined using this method is based on the use of Level 3 inputs.

  The estimated fair value would increase (decrease) if stabilized NOI was higher (lower) or overall capitalization rates were lower (higher).

- Comparable Land Sales. Where the foreclosed property held for sale is land, the Manager determines the fair value of the land based on comparable land sales for properties within the same area. As such, the fair value determined using this approach is based on the use of Level 3 inputs.

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2015 and 2014.

17. Financial instruments and risk management:

(a) Fair value:

The Trust has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk

Management's risk management policies are typically performed as a part of the overall management of the Trust’s operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Trust may be exposed to a number of risks that could affect its operating performance. Management's close involvement in operations will help to identify risks and variations from expectations.

As a part of the overall operation of the Trust, management considers the avoidance of undue concentrations of risk. The risk and the actions taken to manage them include the following:

(*i*) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation that it has entered into with the Trust, resulting in a financial loss to the Trust. This risk arises principally from the investments in mortgages, promissory notes receivable, and other receivables. For risk management reporting purposes the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk).

The Trust’s policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out by the Manager’s Credit Committee.

Credit risk is monitored on an on-going basis by the Manager in accordance with policies and procedures in place. The Trust’s credit risk is monitored on a quarterly basis by the Trust’s Board of Governors.

The Mortgage Broker’s Credit Committee reviews its policies regarding its lending limits on an on-going basis. As at December 31, 2015, 28.4% (2014 - 22.4%) of the Trust’s portfolio was advanced to a single borrowing group. Minimal credit risk also arises from cash, and deposits which is mitigated by holding cash and deposits in Canada with a major financial institution.

The Trust’s maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2015 and December 31, 2014 is represented by the respective carrying amounts of the relevant financial assets in the consolidated statement of financial position.

17. Financial instruments and risk management (continued):

(a) Fair value (continued):

(*ii*) Liquidity risk:

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Trust's liquidity requirements relate to its obligations under its loans payable, accounts payable and accrued liabilities, mortgage syndication liabilities, distributions payable to holders of redeemable units, redeemable units, loans payable and its obligations to make future advances under its existing mortgage portfolio. Liquidity risk is managed by ensuring that the sum of: (*i*) availability under the Trust's bank borrowing line; (*ii*) the sourcing of other borrowing facilities; and (*iii*) projected repayments under the existing mortgage portfolio, exceeds projected needs (including funding of further advances under existing and new mortgage investments). As at December 31, 2015, 60.3% of the Trust’s mortgage portfolio, being $198,200,712, is due on or before December 31, 2016 (2014 - 43.2% or $140,511,783 due before December 31, 2015). This excludes mortgages that are past due as at December 31, 2015.

Loans payable do not have associated maturity dates but are repayable on demand upon 30 days’ notice.

Accounts payable and accrued liabilities arise from normal operating expenses and are expected to be settled within three months of year end.

In Management’s opinion, the Trust has sufficient resources to meet its current cash flow requirements.

(*iii*) Market risk:

Market risk is the risk that changes in market factors, such as interest rates, currency and other price risks will affect the Trust’s income or the fair value of its holdings of financial instruments and investments in associates. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Trust’s strategy for the management of market risk is driven by the Trust’s investment objective which is to invest in a diversified portfolio of mortgages on real property and development projects within Canada and the United States that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its Unitholders.

17. Financial instruments and risk management (continued):

(a) Fair value (continued):

(iii) Market risk (continued):

The Trust’s market risk is managed on a regular basis by the Manager in accordance with policies and procedures in place.

(A) Interest rate risk:

Interest rate risk is the risk that fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Trust's interest rate risk is primarily attributable to its resources to fund the mortgages. As described in note 12, units are retractable by Unitholders upon 30 days’ notice. A significant rise in interest rates may cause Unitholders to retract their Units and could cause a shortfall in funds available to meet such retractions. The Trust manages interest rate risk by generally investing in short term variable rate mortgages with floor rates which are greater than the rate charged by its lenders. The Trust also charges a 1% penalty on retractions made prior to units’ first year anniversary.

As at December 31, 2015, a 0.5% decrease/increase in interest rates with all other variables held constant would increase/decrease the Trust’s income by approximately $1,710,000 (2014 - $1,786,000), arising mainly as a result of higher interest income generated on variable rate mortgage investments offset in part by higher interest rates on the Trust’s borrowing facilities. A 0.5% decrease/increase in interest rates with all other variables held constant would increase/decrease income by approximately $26,000 (2014 - $17,000) as a result of lower interest costs on the borrowing facilities.

(B) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Trust's functional currency is Canadian dollars however the Trust invests in mortgages and investments in associated and joint ventures that are denominated in US dollars.

The Trust has put in place steps to mitigate impacts from fluctuations in foreign exchange as the Trust has entered into forward exchange contracts to manage most of its foreign exchange exposure. As at December 31, 2015, the Trust was participating in forward exchange contracts to sell US dollars totaling $62,255,783 (2014 - $27,187,755). The foreign currency derivatives are marked-to-market on the consolidated statement of financial position and the fair value as at December 31, 2015 is $1,162,082. The foreign currency derivatives are entered into by the Mortgage Broker on behalf of the Trust with third party financial institutions.

(Tabular amounts expressed in Canadian dollars, unless otherwise indicated)

17. Financial instruments and risk management (continued):

(a) Fair value (continued):

(*iii*) Market risk (continued):

(B) Currency risk (continued):

The table below indicates the foreign currency to which the Trust had unhedged exposure at December 31, 2015 and 2014. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if Canadian dollar had strengthened or weakened by 5% in relation to the other currency, with all other variables held constant.

Increase (decrease) in CAD:

2015

Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	nil	nil
% of net assets attributable to redeemable units	nil%	nil%

As at December 31, 2015, all US dollar exposure has been hedged by forward currency swap contracts entered into by the Trust.

2014

Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 3,328,782	$ 114,816 - ($114,816)
% of net assets attributable to redeemable units	0.86%	0.03% - (0.03%)

(C) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Trust is exposed to price risk because of its investment in mortgages and development projects through its investments in associates and joint ventures. These risks arise from changes in the real estate market and could be local, national, and global in nature. Deteriorating real estate values increase the Trust's risk. The Trust manages these risks by actively maintaining strong borrower relationship and active monitoring of all loans. Further, the Trust has diversified its portfolio of investment mortgages geographically to manage this risk.

18. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2015 was $374,932,742 (2014 - $388,392,737).

The Trust's objective when managing capital is to maintain its ability to continue as a going concern and ensure that it has sufficient cash resources to invest in mortgages in order to provide a return to its Unitholders. To secure the additional capital necessary to pursue these plans, the Trust may attempt to raise additional funds through the issuance of additional units.

The Trust, through its Manager, manages its capital structure and makes adjustments as appropriate based on the funds available to the Trust as well as utilization of its line of credit in order to support the continued investment in mortgages and other investments. The Manager's investment strategy continues to be to preserve investor capital, while providing a consistent stream of interest income.