Financial Statements
(Expressed in Canadian dollars)

TREZ CAPITAL PRIME TRUST

Year ended December 31, 2018

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Directors of Trez Capital Prime Trust

We have audited the financial statements of Trez Capital Prime Trust (the Entity), which comprise:

- the financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net Assets attributable to holders of redeemable units for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent
member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 29, 2019

TREZ CAPITAL PRIME TRUST

Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Assets			
Cash and cash equivalents		$ 1,761,870	$ 4,305,349
Restricted cash		400,000	-
Other assets		450,437	199,230
Due from related party	8	5,167,162	-
Deferred financing fees		185,482	236,739
Foreign currency derivatives	10	-	468,096
Investments in mortgages	4	178,028,037	88,522,699
		$ 185,992,988	$ 93,732,113
Liabilities and Net Assets Attributable To Holders of Redeemable Units			
Bank indebtedness	5	$ 10,000,000	$ 5,500,000
Accounts payable and accrued liabilities	8	1,307,475	980,241
Distributions payable to holders of redeemable units	7	2,588,820	1,488,955
Foreign currency derivatives	10	518,181	-
Mortgage syndication liabilities	4	500,000	639,782
		14,914,476	8,608,978
Redeemable units, representing net assets attributable to holders of redeemable units	6	171,078,512	85,123,135
		$ 185,992,988	$ 93,732,113
Redeemable units, representing net assets attributable to holders of redeemable units:	6		
Series A		$ 10,353,895	$ 7,069,581
Series F		88,222,712	48,747,797
Series I		72,501,905	29,305,757
		$ 171,078,512	85,123,135

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

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

"Alexander Manson"
(Signed) Alexander Manson
Director

"Ken Lai"
(Signed) Ken Lai
Director

TREZ CAPITAL PRIME TRUST

Statement of Comprehensive Income (loss)
(Expressed in Canadian dollars)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Revenue:			
Interest income		$ 9,420,505	$ 6,071,379
Interest expense on mortgage syndication liabilities		(35,250)	(17,257)
		9,385,255	6,054,122
Expenses:			
Management and incentive fees	8	2,101,425	1,562,918
Commissions		334,796	248,335
Professional fees		263,274	200,257
Foreign exchange loss		282,856	145,043
Bank charges		381,044	115,473
General and administrative		316,574	98,851
Governance fees		26,458	24,217
Provision for mortgage losses	4b	123,716	-
		3,830,143	2,395,094
Income from operations		5,555,112	3,659,028
Financing costs:			
Interest expense		-	17,765
Distributions to holders of redeemable units	7	5,678,828	3,641,263
		5,678,828	3,659,028
Increase (decrease) in net assets attributable to holders of redeemable units, from operations		$ (123,716)	$ -

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

TREZ CAPITAL PRIME TRUST

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

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Balance, beginning of year	$ 85,123,135	$ 52,107,550
Impact of adopting IFRS 9 (note 11)	(159,898)	-
Increase (decrease) in net assets attributable to holders of redeemable units, from operations	(123,716)	-
Contributions and redemptions by holders of redeemable units:		
Issuance of units	91,287,355	41,250,471
Reinvestment of distributions on redeemable units	1,887,585	1,454,647
Redemptions	(6,935,949)	(9,689,533)
	85,955,377	33,015,585
Balance, end of year	$ 171,078,512	$ 85,123,135

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

TREZ CAPITAL PRIME TRUST

Statement of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Increase (decrease) in net assets attributable to holders of redeemable units, from operations	$ (123,716)	$ -
Items not involving cash:		
Unrealized gain (loss) on foreign currency derivatives	518,181	(468,096)
Interest income, net of interest expense on syndications	(9,420,505)	(6,071,379)
Distributions to holders of redeemable units	5,678,828	3,641,263
Interest expense	-	17,765
Provision for mortgage losses	123,716	-
Interest received	6,147,601	4,115,962
Changes in non-cash operating working items:		
Other assets	268,147	(184,602)
Due from related party	(5,167,162)	-
Margin deposits	(400,000)	147,308
Accounts payable and accrued liabilities	327,231	401,436
	(2,047,679)	1,599,657
Investing activities:		
Funding of investments in mortgages	(182,113,244)	(74,477,205)
Principal payments received on investments in mortgages	95,457,413	43,982,779
	(86,655,831)	(30,494,426)
Financing activities:		
Distributions paid	(2,691,375)	(1,684,285)
Interest paid	-	(20,821)
Line of credit	4,500,000	5,500,000
Repayments on loans payable	-	(721,500)
Proceeds on issuance of units	91,287,355	41,250,471
Redemption of units	(6,935,949)	(9,689,533)
	86,160,031	34,634,332
Increase (decrease) in cash and cash equivalents	(2,543,479)	5,739,563
Cash and cash equivalents, beginning of year	4,305,349	(1,434,214)
Cash and cash equivalents, end of year	$ 1,761,870	$ 4,305,349

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

1. General:

Trez Capital Prime Trust (formerly Bison Prime Mortgage Fund) (the “Trust”) is an unincorporated trust established under the laws of British Columbia pursuant to a Trust Agreement dated January 5, 2006 which has been amended various times with the latest amendment dated May 1 2018.

Trez Capital Fund Management Limited Partnership is the Manager (the “Manager”), Trez Capital Limited Partnership is the mortgage broker (the “Mortgage Broker”) and Computershare Trust Company of Canada is the trustee (the “Trustee”) of the Trust.

The Trust has been created for the purpose of generating a stream of income from interests acquired in a portfolio of prime mortgages, which are first mortgages that secure loans with less than or equal to 75% of the value of the real property at the time of funding, related to any and all types of real property within Canada and the United States.

The principal place of business of the Trust is located at 1700 – 745 Thurlow Street, Vancouver, British Columbia, V6E 0C5.

2. Basis of preparation:

(a) Statement of compliance:

The 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 financial statements were authorized for issue by the Board of Governors on March 29, 2019.

(b) Basis of measurement:

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

(c) Functional and presentational currency:

These financial statements are presented in Canadian dollars, which is also the functional currency of the Trust.

2. Basis of preparation (continued):

(d) Use of estimates and judgments:

The preparation of 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 financial statements are related to investment in mortgages. Estimates and judgments related to allowance for credit losses for investments in mortgages have been revised following adoption of IFRS 9 Financial Instruments ("IFRS 9"), effective January 1, 2018 as follows:

(*i*) Investments in mortgages:

The Trust is required to make an assessment of the impairment of investments in mortgages. Under the old standard (IAS 39 *Financial Instruments: Recognition and Measurement ("IAS 39")*) prior to January 1, 2018, investments in mortgages were considered to be impaired only if objective evidence indicated that one or more events ("loss events") had occurred after its initial recognition, that would have a negative effect on the estimated future cash flows of that asset. IFRS 9 replaces the 'incurred loss' model in IAS 39 as of January 1, 2018 with a forward looking 'expected credit loss' (ECL) model which is applied to investments in mortgages that are classified as amortized cost. The new expected credit loss model is further explained in note 3(g)(*iii*). 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:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements with the exception of IFRS 9 as noted under 3(g) below.

(a) Cash:

Cash consists of cash held at financial institutions.

(b) Margin deposits:

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

3. Significant accounting policies (continued):

(c) Bank Indebtedness:

Bank indebtedness consists of amounts drawn from an available credit facility the Trust has with a Canadian Chartered bank providing for borrowings up to $20,000,000 by way of a demand revolving loan.

(d) Redeemable units:

All of the Units of the Trust are redeemable on demand at the unitholder's option and are therefore classified as financial liabilities and presented as "net assets attributable to holders of redeemable units" in the statement of financial position.

(e) Revenue recognition:

Interest income is recognized in the statement of comprehensive income in the period in which it is earned on an effective interest rate basis.

(f) Distributions on redeemable units:

Distributions to unitholders of each class are made on a quarterly basis, in arrears, in the amount of 100% of the Trust's net income and net realized capital gains for the year less any reserves that the Manager deems appropriate and less any previous distributions made in that year. Distributions are accrued as finance expense in the period to which they relate.

(g) Financial instruments:

(*i*) Change in Accounting Policy:

Effective January 1, 2018, the Trust adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaces the previous IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") standard. The standard sets out requirements for recognizing and measuring financial assets and financial liabilities. It also replaces the current loan impairment "incurred loss" model with an "expected credit loss" (ECL) model. The Trust has recognized adjustments to opening net assets attributable to holders of redeemable units as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening net assets attributable to holders of redeemable units is a decrease of $159,898. The adjustment to net assets attributable to holders of redeemable units is comprised of a decrease of $123,716 relating to changes in the provision for credit losses. Refer to note 11 for further details with respect to the impact to the opening statement of financial position at January 1, 2018.

The Trust has elected to not restate the prior period comparative figures as permitted by the transition provisions of this standard. Accordingly, current period results for 2018 have been prepared in accordance with IFRS 9 and the comparative information for 2017 is presented under IAS 39 as previously published.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*ii*) Recognition and classification of Financial Assets and Liabilities:

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Trust's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is measured at fair value and subsequently classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI)-debt investment; FVOCI-equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets that are debt instruments under IFRS 9 are generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The most significant financial asset that is a debt instrument in the Trust is investments in mortgages. The objective of the Trust is to hold these investments and collect the contractual interest payments from the loans. The payments received by the Trust are solely payments of principal and interest; therefore the asset meets the criteria under IFRS 9 to be measured at amortized cost. Other assets such as cash and receivables are also classified at amortized cost. Foreign currency derivatives continue to be classified as FVTPL.

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.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*iii*) Impairment:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI. Under IFRS 9, credit losses may be recognized earlier than under IFRS 39.

The Trust's financial assets at amortized cost consist of investments in mortgages, accounts receivable and cash.

The Trust measures expected credit losses on each balance sheet date according to a three stage expected credit loss impairment model:

Performing financial assets

- Stage 1: From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2: Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets:

- Stage 3: When a financial asset is considered credit-impaired and in default it will be classified in stage 3, and a loss allowance equal to credit losses expected over the remaining lifetime of the asset will be recorded.

  When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers both quantative and qualitative information that is reasonable and supportable and is relevant and available. There is a presumption in IFRS 9 that credit risk has increased significantly once payments are 30 days past due. However, the Trust's historical experience is that mortgages can become 30 days past due, but be brought up to date by the borrower, therefore another additional risk factor also needs to be identified for the mortgage to move to Stage 2. Other additional risk factors considered to identify a significant increase in credit risk are:

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*iii*) Impairment (continued):

Impaired financial assets (continued):

- Changes in the financial condition of the borrower;
- Responsiveness of the borrower;
- Current economic conditions: interest rates, housing prices, real estate and employment statistics; and
- Supportable forward looking information: macro-economic factors, such as interest rate forecasts.

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgement. Judgement is also required in making assumptions and estimations when calculating the allowance for credit losses, including movements between the three stages and the application of forward looking information.

In cases where a borrower experiences financial difficulties, the Trust may grant certain modifications to the terms and conditions of a loan. Modifications may include payment terms, debt consolidation, and forbearance intended to minimize economic loss. The Trust determines the appropriate remediation strategy based on the individual situation. If the Trust determines that a modification results in expiry of cash flows, the original asset is derecognized while a new asset is recognized based on the new contractual terms.

Significant increase in credit risk is assessed relative to the risk of default on the date of modification. If the Trust determines that a modification does not result in derecognition, significant increase in credit risk is assessed based on the risk of default at initial recognition of the original asset. The expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having a lifetime ECL, the loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Trust is exposed to credit risk.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*iii*) Impairment of financial assets (continued):

In assessing information about possible future economic conditions, the Trust utilized multiple economic scenarios including the base case, which represents the most probable outcome and is consistent with the Trust's view of the portfolio. The calculation of expected credit losses includes the incorporation of forecasts of future economic conditions. In determining expected credit losses, the Trust has considered key macroeconomic variables that are relevant to each investment type. Key economic variables include GDP and interest rate forecasts. The estimation of future cash flows also includes assumptions about local real estate market values and conditions, 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.

Should the underlying assumptions change, the estimated future cash flows could vary. The forecast is developed internally by the Manager of the Trust. The Trust exercises experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

(*iv*) De-recognition of financial assets and financial liabilities (Under IFRS 9 and IAS 39):

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 de-recognition 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 statement of comprehensive income (loss).

The Trust may enter into transactions whereby it transfers mortgage or loan investments recognized on its 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.

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(*iv*) De-recognition of financial assets and financial liabilities (Under IFRS 9 and IAS 39) (continued):

Financial assets (continued):

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 statement of financial position.

Financial liabilities:

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

(h) Financial instruments-prior to January 1, 2018:

(*i*) Recognition and classification:

The Trust recognizes a financial instrument in its 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 and other 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 the profit and loss in the period in which they were incurred.

Financial instruments, excluding net assets attributable to holders of redeemable units, 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.

3. Significant accounting policies (continued):

(h) Financial instruments-prior to January 1, 2018 (continued):

(*ii*) Derecognition of financial assets and liabilities:

Derecognition of financial assets is consistent between IFRS 9 and IAS 39. Refer to note 3(g)(*iv*).

(*iii*) Impairment:

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.

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.

3. Significant accounting policies (continued):

(i) Other Changes in Accounting Policies:

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 from January 1, 2018; it did not have a material effect on the Trust's financial statements.

(j) Future accounting changes:

The Trust has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Trust closely monitors new accounting standards as well as amendments to existing standards and assesses what impact, if any, they will have on the financial statements. None of the standards issued to date are expected to have a material effect on the financial statements.

(k) Segmented information:

The Trust's operations consist of the investment in mortgages secured by real property in Canada and the United States, which constitutes a single operating segment.

4. Investments in mortgages:

The Trust holds mortgages on the following properties:

	2018		2017	
Property type	Number	Amount	Number	Amount
Industrial	5	$ 28,072,471	5	$ 12,114,736
Hotel	-	-	1	$3,800,000
Residential	33	131,023,037	28	63,679,586
Retail	3	15,217,459	2	5,963,453
Office	1	2,198,960	1	1,600,000
Mortgage portfolio	42	176,511,927	37	87,157,775
Mortgage syndications		500,000		639,782
Accrued interest		1,299,724		725,142
Less provision for mortgage losses 4(b)		(283,614)		-
Investments in mortgages		$ 178,028,037		$ 88,522,699

4. Investments in mortgages (continued):

	2018		2017	
Property location	Number	Amount	Number	Amount
British Columbia	18	$ 82,894,735	11	$ 28,673,632
Alberta	9	33,144,008	13	31,825,869
Ontario	2	5,675,000	2	4,501,893
Quebec	2	4,350,608	2	4,504,061
Texas	4	15,253,407	4	7,889,731
Louisiana	-	-	1	3,346,486
Florida	1	1,626,074	1	2,702,765
Arizona	-	-	2	1,258,373
California	2	11,853,490	-	-
Pennsylvania	1	4,574,362	-	-
Washington	2	13,892,609	-	-
Georgia	1	3,247,634	1	2,454,965
Total mortgages	42	$ 176,511,927	37	$ 87,157,775

The following table presents the reconciliation of mortgages as at December 31, 2018 and 2017:

	2018	2017
Investments in mortgages, beginning of year	$ 88,522,699	$ 56,472,857
Funding of investments in mortgages	182,113,244	74,477,205
Interest capitalized to investments in mortgages	2,698,321	1,726,949
Repayments of mortgages	(95,457,413)	(43,982,779)
Change in accrued interest	574,582	228,467
Impact of adopting IFRS 9	(159,898)	-
ECL for 2018	(123,716)	-
Decrease in mortgage syndication liabilities	(139,782)	(400,000)
Investments in mortgages, end of year	$ 178,028,037	$ 88,522,699

All mortgages 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.

4. Investments in mortgages (continued):

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.14% (2017 - 7.81%) and mature between 2018 and 2020, except one mortgage which is past due, as illustrated in the table below. The mortgage agreements stipulate various fixed interest rates for US Dollar Loans and a minimum interest rate and a variable interest rate based on the Prime Rate for Canadian dollar loans established by Bank of Canada ("Prime Rate").

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

Maturity period	Number	Amount
Past due	6	$ 23,426,534
2019	17	56,019,335
2020	19	97,066,058
	42	$ 176,511,927

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. The Trust retains an option, not an obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders' share together with accrued interest. As a result, the senior lenders' position is recorded as a non-recourse mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the statement of comprehensive income.

For those investments which have not met the derecognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its statements of financial position. Included in investments in mortgages are mortgage syndication liabilities of $500,000 (2017 - $639,782).

A mortgage is considered in default when a payment has not been received by the contractual due date, or a term in the mortgage agreement has been breached. For mortgages that are in default but are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest, no credit loss provision is recorded.

As at December 31, 2018, the Trust had one (2017 - one) mortgage that was in default in the total amount of $4,187,580 (2017 - $4,043,453). The Manager believes the value of the underlying security is sufficient to cover any potential loss on the mortgage and as such, no loss provision has been recognized. The Trust has recorded an impairment on this loan in the amount of $nil (2017 - nil).

4. Investments in mortgages (continued):

(b) Provision for mortgage losses

The gross carrying amounts of investments in mortgages and expected credit loss by property type are as follows:

	December 31, 2018			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 28,072,471	$ -	$ -	$ 28,072,471
Hotel	-	-	-	-
Residential	125,725,298	5,297,739	-	131,023,037
Retail	11,029,879	-	4,187,580	15,217,459
Office	2,198,960	-	-	2,198,960
	$ 167,026,608	$ 5,297,739	$ 4,187,580	$ 176,511,927

	December 31, 2018			
Provision for mortgage losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 20,714	$ -	$ -	$ 20,714
Hotel	-	-	-	-
Residential	246,815	-	-	246,815
Retail	16,085	-	-	16,085
Office	-	-	-	-
	$ 283,614	$ -	$ -	$ 283,614

The provision for mortgage losses at December 31, 2018 is $283,614. This provision represents management's estimate of the ECLs on mortgages in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and 3. Management estimated the ECL for these as $nil, primarily due to the mortgage collateral held on the mortgages.

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

The changes in the provision for mortgage losses are shown in the following table.

	December 31, 2018			
IFRS 9	Stage 1	Stage 2	Stage 3	Total
IAS 39 balance, December 31, 2017	$ -	$ -	$ -	$ -
Transition adjustment (note 11)	159,898	-	-	159,898
Provision for mortgage losses:				
Transfers to (from) Stage 1 [(1)]	-	-	-	-
Transfers to (from) Stage 2 [(1)]	-	-	-	-
Transfers to (from) Stage 3 [(1)]	-	-	-	-
Net remeasurement [(2)]	(10,058)	-	-	(10,058)
Mortgage advances	210,652	-	-	210,652
Mortgage repayments	(76,878)	-	-	(76,878)
Write-offs	-	-	-	-
	$ 283,614	$ -	$ -	$ 283,614

(1) *Transfers between stages which are presumed to occur before any corresponding remeasurement of the provision.*

(2) *Net remeasurement represents the change in the allowance related to changes in model inputs or assumptions, including changes in macroeconomic conditions, and changes in measurement following a transfer between stages.*

During the year ended December 31, 2018, the provision for mortgage losses for mortgages classified as Stage 1 increased as a result of the overall increase in the mortgage portfolio.

IAS 39	Year ended December 31, 2017
Balance, beginning of year	$ -
Mortgages settled during the year	-
Provision for mortgage losses	-
Balance, end of year	$ -

5. Bank indebtedness:

The Trust has a credit facility with a Canadian Chartered bank providing for borrowings up to $20,000,000 by way of a demand revolving loan. The amount available under the credit facility is further limited by a margin requirement. As at December 31, 2018, the maximum borrowing available under the credit facility is $20,000,000 (2017 - $20,000,000). Interest is calculated at the bank's prime rate plus 1.50% per annum and a standby fee is calculated on the undrawn portion of the facility at 0.625% per annum. As at December 31, 2018, $10,000,000 (2017 - $5,500,000) has been drawn down against the credit facility.

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 is equal to or less than 0.35 to 1.0; or

(b) permit its tangible net worth at any time to be less than $55,000,000; or

(c) permit its ratio of EBITDA to interest expense ratio is equal to or greater than 3.0 to 1.0.

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 years ended December 31, 2018 and 2017, the Trust was in compliance with all of the related covenants.

The credit facility is collateralized by a general security agreement creating a first priority security interest over all personal property of the Trust and a floating charge over all of the Trust’s real property, and an assignment of the Trust’s beneficial interest in all mortgages held.

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

Net assets are represented by the redeemable units issued and outstanding. As at December 31, 2018, the Trust has authorized an unlimited number of redeemable non-transferable $10 units. The unitholders are entitled to one vote per unit. The units are retractable on demand by the unitholder. The retractions may be subject to penalty.

	2018		2017	
Series A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	706,958	$ 7,069,581	520,868	$ 5,208,677
Impact of adopting IFRS 9 (note 11)	-	(9,677)	-	-
Decrease in net assets, ECL for 2018	-	(7,488)	-	-
Issued for cash	395,694	3,956,937	331,466	3,314,658
Issued for reinvested distributions	21,993	219,929	13,459	134,592
Redeemed for cash	(87,539)	(875,387)	(158,835)	(1,588,346)
Issued and outstanding, end of year	1,037,106	10,353,895	706,958	7,069,581
Cumulative IFRS 9 Stage 1 provisions	-	17,165	-	-
	1,037,106	$ 10,371,060	706,958	$ 7,069,581

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

	2018		2017	
Series F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	4,874,780	$ 48,747,797	3,788,010	$ 37,880,099
Impact of adopting IFRS 9 (note 11)	-	(82,457)	-	-
Decrease in net assets, ECL for 2018	-	(63,798)	-	-
Issued for cash	4,356,587	43,565,866	1,327,203	13,272,029
Issued for reinvested distributions	129,382	1,293,818	94,512	945,121
Redeemed for cash	(523,851)	(5,238,514)	(334,945)	(3,349,452)
Issued and outstanding, end of year	8,836,898	88,222,712	4,874,780	48,747,797
Cumulative IFRS 9 Stage 1 provisions	-	146,255	-	-
	8,836,898	$ 88,369,967	4,874,780	$ 48,747,797

	2018		2017	
Series I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	2,930,575	$ 29,305,757	901,877	$ 9,018,774
Impact of adopting IFRS 9 (note 11)	-	(67,764)	-	-
Decrease in net assets, ECL for 2018	-	(52,430)	-	-
Issued for cash	4,376,455	43,764,552	2,466,378	24,663,784
Issued for reinvested distributions	37,384	373,838	37,493	374,933
Redeemed for cash	(82,205)	(822,048)	(475,173)	(4,751,734)
Issued and outstanding, end of year	7,262,209	72,501,905	2,930,575	29,305,757
Cumulative IFRS 9 Stage 1 provisions	-	120,194	-	-
	7,262,209	$ 72,622,099	2,930,575	$ 29,305,757

	2018		2017	
Total	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	8,512,313	$ 85,123,135	5,210,755	$ 52,107,550
Impact of adopting IFRS 9 (note 11)	-	(159,898)	-	-
Decrease in net assets, ECL for 2018	-	(123,716)	-	-
Issued for cash	9,128,736	91,287,355	4,125,047	41,250,471
Issued for reinvested distributions	188,759	1,887,585	145,464	1,454,646
Redeemed for cash	(693,595)	(6,935,949)	(968,953)	(9,689,532)
Issued and outstanding, end of year	17,163,213	171,078,512	8,512,313	85,123,135
Cumulative IFRS 9 Stage 1 provisions	-	283,614	-	-
	17,136,213	$ 171,362,126	8,512,313	$ 85,123,135

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

For the year ended December 31, 2018, the taxable income of the Trust was $5,678,828 and the accounting income of the Trust attributable to holders of redeemable units was $5,555,112. In accordance with its trust indenture, the Trust distributed an amount equal to taxable income. The difference of $123,716 between accounting income and taxable income primarily reflects the provision for expected credit losses related to IFRS 9.

7. Distribution payable to holders of redeemable units:

The total distributions for the year were $5,678,828 (2017-$3,641,263) the fourth quarter distribution payable at December 31, 2018 is to be distributed to the unitholders subsequent to year-end as follows:

	2018	2017
Paid in cash	$ 1,485,769	$ 877,648
Reinvested as Trust units	1,103,051	611,307
	$ 2,588,820	$ 1,488,955

8. Related party transactions and balances:

The Trust invests in prime mortgages alone or on a participation basis with parties related to the Manager. Title to mortgages is held by TCC Mortgage Holdings Inc., a bare trustee, or Computershare Trust Company of Canada, a non-related third party, on behalf of the beneficial owners of the mortgages. TCC Mortgage Holdings is related to the Manager and the Trust through common control. In cases where mortgages are held on a participation basis, certain duties are performed by the Mortgage Broker:

- The Trust's rights are as outlined in the Trust Agreement and a Mortgage Participation and Servicing Agreement with the Mortgage Broker. The Trustee holds the Trust's interest in the mortgages and underlying security.
- Pursuant to this 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.
- The Mortgage Broker performs certain duties including registering title to 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.

8. Related party transactions and balances (continued):

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 other 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, the Trust purchased investments in mortgages of $99,858,332 (2017 - $29,716,395) from, and sold investments in mortgages of $22,786,619 (2017 - $5,287,770) to entities under common management. All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Pursuant to the terms and conditions of the Trust Agreement, 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 1.50% 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, to be 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 mortgage syndications, 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, the Trust incurred Management Fees of $1,761,147 (2017 - $1,156,359) and Incentive Fees of $340,278 (2017 - $406,559) payable to the Manager. A portion of the Incentive Fees in the amount of $301,036 were waived by the Manager in 2018 (2017 - $24,367). As at December 31, 2018, $916,378 (2017 - $736,406) remained outstanding, and is included in accounts payable and accrued liabilities.

Due from related party includes $5,150,000 (2017 - nil) cash held in Trust by the Mortgage Broker for a mortgage payout not distributed to the Trust at December 31, 2018. The full amount of the was received subsequent to year end.

The Manager is responsible for the expenses of the initial offering of units, other than brokerage fees, as well as 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 will reimburse the Manager for all expenses incurred in the management of the Trust except as previously noted.

9. Income taxes:

The Trust qualifies as a mutual fund trust under the *Income Tax Act (Canada)*.

The Trust allocates to its unitholders net earnings and net gains that would otherwise attract tax in the Trust. Accordingly, no provision for income taxes is reflected in its financial statements.

10. Financial instruments and risk management:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in an orderly transaction between market participants at the measurement date.

(a) Fair values of financial instruments held at amortized cost using the fair value hierarchy:

The carrying values of cash, accrued interest receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, 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 approximate their fair values because the Manager doesn’t expect any significant changes in interest rates 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).

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).

10. Financial instruments and risk management (continued):

(a) Fair values of financial instruments held at amortized cost using the fair value hierarchy (continued):

	Carrying value			
December 31, 2018	Amortized Cost	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value:				
Investments in mortgages	$ 178,028,037	$ -	$ -	$ 178,028,037
Other assets	450,437	-	-	450,437
Due from related party	5,167,162	-	-	5,167,162
Cash	1,761,870	-	-	1,761,870
Financial liabilities not measured at fair value:				
Bank indebtedness	-	-	10,000,000	10,000,000
Distribution payable on redeemable units	-	-	2,588,820	2,588,820
Accounts payable and accrued liabilities	-	-	1,307,475	1,307,475
Mortgage syndication liabilities	-	-	500,000	500,000
Financial liabilities measured at fair value:				
Foreign currency derivative (Level 2)	-	518,181	-	518,181

	Carrying value			
December 31, 2017	Amortized Cost	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value:				
Investments in mortgages	$ 88,522,699	$ -	$ -	$ 88,522,699
Other assets	199,230	-	-	199,230
Cash	4,305,349	-	-	4,305,349
Financial liabilities not measured at fair value:				
Bank indebtedness	-	-	5,500,000	5,500,500
Distribution payable on redeemable units	-	-	1,488,955	1,488,955
Accounts payable and accrued liabilities	-	-	980,241	980,241
Mortgage syndication liabilities	-	-	639,782	639,782
Financial assets measured at fair value:				
Foreign currency derivative (Level 2)	-	468,096	-	468,096

10. Financial instruments and risk management (continued):

(a) Fair values of financial instruments held at amortized cost using the fair value hierarchy (continued):

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 and mortgage syndication liabilities 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 and mortgage syndication liabilities is based on Level 3 inputs.

(*ii*) Other financial assets and liabilities:

The fair values of cash, restricted cash, other assets, loans payable, and accounts payable and accrued liabilities and distributions payable to holders of redeemable units approximate their carrying value due to their short-term maturities.

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

The Trust routinely redeems and issues redeemable units at the amount equal to the proportionate share of net assets of the Trust at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of the net assets attributable to the holders of redeemable units approximates their fair value and are based on Level 2 inputs.

(*iv*) 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.

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2018 and 2017.

10. Financial instruments and risk management (continued):

(b) Financial risk management:

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. The Trust has not designated any transactions as hedging transactions to manage risk.

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 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 and cash. 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 mitigates the risk of credit loss by ensuring that its mix of mortgages is diversified, and by limiting its exposure to any specific borrower or sector. Furthermore, the Trust manages its credit risk through extensive initial due diligence and careful monitoring of its mortgage portfolio, active communications with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages by its Mortgage Broker, and by matching the cash flow profile of the assets and liabilities. All mortgage investments are approved by the Credit Committee comprised of senior management of the Mortgage Broker. The Mortgage Broker's Credit Committee reviews its policies regarding its lending limits on an ongoing basis. Minimal credit risk also arises from cash deposits. This is mitigated by holding deposits in Canada with major financial institutions.

10. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*i*) Credit risk (continued):

As at December 31, 2018, the largest mortgage investment in the Trust's mortgage portfolio was $12,761,979 (2017 - $7,768,412) which is 7.45% (2017 - 9.13%) of the Trust's net asset value, and 7.23% (2017 - 8.91%) of its mortgage portfolio.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2018 and 2017 is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

(*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 approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities (primarily unit redemptions and distributions) when due. Liquidity risk is managed by ensuring that the sum of: (*i*) availability under the Trust's bank borrowing line; and (*ii*) 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, 2018, 31.7% of the Trust's mortgage portfolio, being $56,019,335 is due on or before December 31, 2019 (2017 - 56.09% or $49,247,478 due before December 2018), excluding the six mortgages (2017 - one) that are past due.

All other liabilities are short term in nature and repayable within a year, while the Trust's units do not have a set maturity date, they are redeemable on demand by the unitholders.

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. 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 located within Canada and the United States that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its unit holders.

10. Financial instruments and risk management (continued):

(b) Financial risk management (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 the fair value or the 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 return on investments in mortgages relative to its resources to fund the mortgages. 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.

As at December 31, 2018, a 0.25% decrease or increase in interest rates with all other variables held constant would increase/decrease the Trust’s income by approximately $290,161 (2017 - $160,014), 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 0.25% decrease or increase in interest rates with all other variables held constant would increase/decrease income by approximately $25,000 (2017 - $13,750) as a result of lower interest costs on the borrowing facilities.

(B) Currency risk:

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Trust’s functional currency is Canadian dollars however the Trust invests in mortgages 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 its foreign exchange exposure. As at December 31, 2018, the Trust was participating in one forward exchange contract to sell US dollars totaling $37,304,389 at forward rate of 1.3500 with settlement on January 24, 2019 (2017 - $16,647,600). The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2018 is a liability of $(518,181) (2017 - asset of $468,096). The foreign currency derivatives are entered into by the Mortgage Broker on behalf of the Trust with third party financial institutions.

10. Financial instruments and risk management (continued):

(b) Financial risk management (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, 2018. 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:

2018

Currency	Unhedged exposure	Impact on net assets attributable to redeemable units 5%
United States dollars	$ 33,892	$ 1,695
% of net assets attributable to redeemable units	0.02%	0.00%

2017

Currency	Unhedged exposure	Impact on net assets attributable to redeemable units 5%
United States dollars	$ 17,230	$ 862
% of net assets attributable to redeemable units	0.02%	0.00%

(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. These risks arise from changes in the real estate market and could be local or national 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.

11. Transition to IFRS 9:

The following table summarizes the classification and measurement impacts of adopting IFRS 9 as at January 1, 2018.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 relates solely to impairment in the amount of $159,898 and which has been recognized in net assets attributable to holders of redeemable units as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

The following assessment of financial assets that are debt instruments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model in which a financial asset is held and whether it meets the SPPI test.
- The designation of certain financial assets and financial liabilities as measured at FVTPL.

The Trust has classified its financial instruments as at January 1, 2018 as follows:

Asset / liability	IAS 39 Measurement Category	IFRS 9 Measurement Category
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Due from related party	Loans and receivables	Amortized cost
Investments in mortgages	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Foreign currency derivatives	FVTPL	FVTPL
Distribution payable to holders of redeemable units	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost
Net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost

12. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which as at December 31, 2018 is $171,078,512 (2017 - $85,123,135).

The Trust's objective when managing capital is to maintain its ability to continue as a going concern and ensure that it has sufficient resources in order to be able to generate returns for its investors. 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 is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Trust agreement.