Financial Statements
(Expressed in Canadian dollars)

TG INCOME TRUST III

And Independent Auditors' Report thereon

Years ended December 31, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of TG Income Trust III

We have audited the financial statements of TG Income Trust III (the "Entity"), which comprise:

- the statements of financial position as at December 31, 2019 and December 31, 2018
- the statements of comprehensive income for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the years 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, 2019 and December 31, 2018, and its financial performance and its cash flows for the years 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.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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.

- 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.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 1, 2020

TG INCOME TRUST III

Statements of Financial Position
(Expressed in Canadian dollars)

December 31, 2019 and 2018

	Notes	2019	2018
Assets			
Cash and cash equivalents		$ 6,882,522	$ 1,632,877
Margin deposits	10	750,000	390,000
Deferred financing costs	7	16,243	21,977
Investments in mortgages	4	73,670,817	62,060,684
Due from holders of Series B subordinated units	6	787,284	-
Investments held at fair value	5	2,853,719	-
Amounts receivable	9	3,539	9,291
Foreign currency derivatives	10	901,414	-
Total assets		$ 85,865,538	$ 64,114,829
Liabilities and Equity			
Foreign currency derivatives	10	$ -	$ 517,717
Distribution payable to holders of Series A, C, D and E redeemable units	6	1,341,015	1,003,762
Distribution payable to holders of Series B subordinated units	6	-	461,298
Mortgage syndication liabilities	4	6,371,596	1,391,308
		7,712,611	3,374,085
Redeemable units, representing net assets attributable to holders of redeemable units	6	74,526,230	57,943,200
Total liabilities		82,238,841	61,317,285
Equity			
Net assets attributable to holders of Series B subordinated units	6	3,655,606	2,659,875
Accumulated other comprehensive income (loss)		(28,909)	137,669
Total equity		3,626,697	2,797,544
Total liabilities and equity		$ 85,865,538	$ 64,114,829
Subsequent event	12		

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

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

(signed) *"Alexander Manson"*
Director

(signed) *"Ken Lai"*
Director

TG INCOME TRUST III

Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended December 31, 2019 and 2018

	Notes	2019	2018
Revenue:			
Interest income		$ 7,227,988	$ 5,244,939
Interest expense on mortgage syndication		(369,729)	(22,477)
Other income	6	20,527	93,503
Fair value gain on investments held at fair value	5	21,965	-
		6,900,751	5,315,965
Foreign exchange losses		(246,232)	(572,397)
Provision for mortgage losses	4	(1,136,023)	(37,352)
Income from operations		5,518,496	4,706,216
Financing costs:			
Distributions to holders of Series A, C, D and E redeemable units	6	4,760,906	3,441,890
Amortization of deferred financing costs	7	18,172	21,810
		4,779,078	3,463,700
Net income		739,418	1,242,516
Other comprehensive income (loss):			
Foreign currency translation differences		(166,578)	210,928
Comprehensive income for the year		$ 572,840	$ 1,453,444

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

TG INCOME TRUST III

Statements of Changes in Equity
(Expressed in Canadian dollars)

Years ended December 31, 2019 and 2018

	Net assets attributable to holders of Series B units								
	Series B subordinated Trust units								
	Units		Amount		Retained earnings (deficit)		Total		Accumulated other comprehensive income (loss)
Balance, December 31, 2017	183,213	$	1,832,126	$	73,259	$	1,905,385	$	(73,259)
IFRS 9 allowance for credit loss (“ACL”) on transition	-		-		(99,625)		(99,625)		-
Issued during the year	107,909		1,079,090		-		1,079,090		-
Retractions	(1,405)		(14,047)		-		(14,047)		-
Net income for the year	-		-		1,242,516		1,242,516		210,928
Distributions	-		-		(1,453,444)		(1,453,444)		-
Balance, December 31, 2018	289,717		2,897,169		(237,294)		2,659,875		137,669
Issued during the year	84,046		840,460		-		840,460		-
Retractions	(1,131)		(11,307)		-		(11,307)		-
Net income for the year	-		-		739,418		739,418		(166,578)
Distributions	-		-		(572,840)		(572,840)		-
Balance, December 31, 2019	372,632	$	3,726,322	$	(70,716)	$	3,655,606	$	(28,909)

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

TG INCOME TRUST III

Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Operating activity:		
Net income	$ 739,418	$ 1,242,516
Items not involving cash:		
Unrealized loss (gain) on foreign currency derivatives	(1,419,131)	1,125,715
Provision for mortgage losses	1,136,023	37,352
Interest income, net of interest expense on mortgage syndications	(6,858,259)	(5,222,462)
Distributions to holders of Series A, C, D and E redeemable units	4,760,906	3,441,890
Unrealized foreign exchange	2,306,406	(2,409,743)
Fair value gain on investments at fair value	(21,965)	-
Amortization of deferred financing costs	11,164	10,077
Interest received	3,227,440	1,677,163
Change in non-cash operating working items:		
Amounts receivable	5,752	13,651
	3,887,754	(83,841)
Investing activities:		
Funding of investments in mortgages	(65,746,270)	(73,581,122)
Principal payments received on investments in mortgages	59,167,364	52,904,569
Funding of investments held at fair value	(2,861,063)	-
Increase in margin deposits	(360,000)	(110,000)
	(9,799,969)	(20,786,553)
Financing activities:		
Proceeds from issuance of Series C, D and E redeemable units	16,809,160	21,581,470
Proceeds from issuance of Series B subordinated units	840,460	1,079,090
Payments on redemption of Series A, C, D and E redeemable units	(226,130)	(280,950)
Payments on retraction of Series B subordinated units	(11,307)	(14,047)
Distributions paid to holders of Series A, C, D and E redeemable units	(4,423,653)	(3,041,421)
Distributions paid to holders of Series B subordinated units	(1,821,242)	(1,359,465)
Financing costs	(5,428)	(4,561)
	11,161,860	17,960,116
Increase (decrease) in cash	5,249,645	(2,910,278)
Cash and cash equivalents, beginning of year	1,632,877	4,543,155
Cash and cash equivalents, end of year	$ 6,882,522	$ 1,632,877

The accompanying notes are an integral part of these financial statements

1. Nature of business:

TG Income Trust III (the "Trust") is an open-ended investment trust established under the laws of British Columbia pursuant to a Declaration of Trust dated July 14, 2016.

The principal business of the Trust is to invest proceeds from the issuance of Trust units in real estate investments in Canada and the United States as follows: (a) interest-bearing loans secured by real property; (b) loans comprising a base interest rate and participation in profits; (c) loans secured by a developer's interest in the entity which is developing the real estate; (d) real property through an indirect unsecured interest in real property; and (e) joint ventures, to generate a fixed return for the Trust's unitholders.

Trez Capital Fund Management Limited Partnership is the Trust's manager (the "Manager") and trustee (the "Trustee"). Trez Capital Limited Partnership is the mortgage broker (the "Mortgage Broker") of the Trust. The Trust has been created for the purpose of generating a fixed quarterly return from interest acquired in a portfolio of real property mortgages within Canada and the United States. 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. The Trust commenced operations on July 14, 2016.

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:

These 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").

These financial statements were authorized for issue by the Board of Governors on April 1, 2020.

(b) Functional and presentation currency:

The financial statements of the Trust are presented in Canadian dollar, which is the presentation currency of the Trust. The Trust's functional currency is the U.S. dollar.

All assets and liabilities are translated using the exchange rate at the reporting date. Revenue and expenses are translated using the average rate for the period. Equity accounts are translated using the historical rate. As the translation differences from the Trust's functional currency of U.S. dollars to the presentation currency of Canadian dollars are movements in unrealized gains and losses, the differences are recorded in other comprehensive income, and do not impact the calculation of net income or loss.

2. Basis of preparation (continued):

(c) Basis of measurement:

These financial statements have been prepared on the historical cost basis, except for margin deposits, foreign currency derivative financial instruments and investments held at fair value which are measured at fair value.

(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:

(*i*) Investments in mortgages:

The Trust is required to make an assessment of forward looking ‘expected credit losses (“ECL”) for investments in mortgages. The expected credit loss model is further explained in Note 3(e). 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.

(*ii*) Investments at fair value:

Included in the investments at fair value are investment interests in Special Purpose Entities. These allow the Trust to participate in loan sharing arrangements with third party US based financial institutions. Judgment is applied in assessing whether the Trust exercises control, joint control, significant influence or none of the above over the Special Purpose Entities. Control is defined as the power to govern the financial and operating decisions of an entity so as to obtain benefits from its activities, and significant influence is defined as the power to participate in the financial and operating decisions of the Special Purpose Entities. The Company has determined for these Special Purpose Entities that the Trust has neither control, joint control or significant influence as the Trust has no ability to control or influence any of the relevant activities of the Special Purpose Entities and has therefore measured the investments at fair value in accordance with IFRS 9.

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

(*ii*) Investments at fair value (continued):

The Trust estimates the value of these investments based on its assessment of the current lending market for mortgages of same or similar terms. Should the underlying assumptions around current market interest rates change, the estimated future cash flows and income could vary affecting fair value.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Cash:

Cash and cash equivalents consists of cash held at financial institutions and all liquid investments with original terms to maturity of three months or less

(b) Margin deposits:

Margin deposits relates to margin deposits made on foreign currency swap contracts.

(c) Trust units:

The Trust classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Series A, C, D and E units, are redeemable at the Unitholder's option and accordingly classified as financial liabilities and presented as "redeemable units, representing net assets attributable to redeemable units" in the statement of financial position. Distributions to holders of Series A, C, D and E units are recognized as an expense in comprehensive income, following the units' classification as liabilities.

The Series B units, are classified as equity as the units are subordinate to the Series A, C, D and E units. Distributions to holders of Series B units are recognized in the statement of equity, following the units' classification as equity.

(d) Revenue recognition:

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

3. Significant accounting policies (continued):

(e) Financial instruments:

(*i*) Recognition and classification of financial assets and liabilities:

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.

Financial liabilities are recognized initially at fair value and are classified as other financial liabilities or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPTL are measured at fair value and net gains and losses including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

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):

(e) Financial instruments (continued):

(*i*) Recognition and classification of financial assets and liabilities (continued):

The Trust has classified its financial instruments as follows:

Asset / liability	Classification	Measurement
Cash and cash equivalents	Amortized Cost	Amortized cost
Margin deposits	FVTPL	Fair Value
Investments in mortgages	Amortized Cost	Amortized cost
Amounts receivable	Amortized Cost	Amortized cost
Investments held at fair value	FVTPL	Fair Value
Foreign currency derivatives	FVTPL	Fair value
Distribution payable on units	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost
Redeemable units, representing net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost

(*ii*) Impairment:

Under IFRS 9, an entity recognizes loss allowances for expected credit losses ("ECL") to financial assets measured at amortized cost, contract assets and debt investments at FVOCI.

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.

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

(*ii*) Impairment (continued):

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers both quantitative 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:

- 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 judgment.

Judgment is required in making assumptions and estimations when calculating the ECL, 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.

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

(*ii*) Impairment (continued):

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.

An ECL represents the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received. The application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These inputs are determined at each reporting period using historical data and current conditions.

- PD: The PD represents the likelihood that a loan will not be repaid and will go into default in either a 12 month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual loan is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.
- EAD: EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.
- LGD: The LGD is the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

(*ii*) Impairment (continued):

In assessing information about possible future economic conditions, the Trust utilizes 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 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.

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

(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 statement of comprehensive income.

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

(*iii*) Derecognition of financial assets and liabilities (continued):

(A) Financial assets (continued):

The Trust enters 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. 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.

(B) Financial liabilities:

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

(*iv*) Loan modifications:

The Trust may modify the contractual terms of mortgages for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing and other terms to borrowers. Loans may also be modified for credit reasons where the contractual terms are modified to grant a concession to a borrowers that may be experiencing financial difficulty.

Upon the modification of the contractual terms of a financial asset, an assessment is made if the modified contractual terms are considered significant. The Trust considers one or a combination of the following factors as a significant change: a substantial interest rate reduction, an extension of the repayment term at a below market stated interest rate, a forgiveness of principal or accrued interest, or substantial changes to the collateral provided.

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

3. Significant accounting policies (continued):

(e) Financial instruments (continued):

(*iv*) Loan modifications (continued):

When the modification is considered to be significant, the carrying amount of the original financial asset is derecognized and the fair value of the modified financial asset is recognized with the resulting gain or loss recognized in the statement of comprehensive income. For the purposes of assessing if the financial asset experienced a significant increase in credit risk, the modification date is considered to be the origination date of the modified financial asset.

When the modification is not considered to be significant, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the statement of comprehensive income. The origination date of the financial asset prior to the modification continues to be used for the purposes of assessing if the financial asset experienced a significant increase in credit risk.

4. Investments in mortgages:

	2019		2018	
Property type	Number	Amount	Number	Amount
Residential	38	$ 57,098,715	30	$ 59,435,643
Industrial	2	5,250,000	2	832,469
Other	2	5,640,077	-	-
	42	67,988,792	32	60,268,112
Accrued interest		583,429		538,241
Less: provision for mortgage losses 4(b)		(1,273,000)		(136,977)
Mortgage syndications		6,371,596		1,391,308
		$ 73,670,817		$ 62,060,684

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

4. Investments in mortgages (continued):

	2019		2018	
Property location	Number	Amount	Number	Amount
Texas	27	36,474,035	21	$ 37,502,582
Arizona	2	2,000,501	1	1,730,359
Florida	4	5,866,785	3	5,346,781
Oregon	-	-	1	2,863,830
Washington	-	-	1	4,091,653
Georgia	1	1,090,708	-	-
British Columbia	3	8,058,613	2	2,563,357
Alberta	4	13,467,727	3	6,169,550
Ontario	1	1,030,423	-	-
	42	67,988,792	32	60,268,112
Accrued interest		583,429		538,241
Less: provision for mortgage losses 4(b)		(1,273,000)		(136,977)
Mortgage syndications		6,371,596		1,391,308
		$ 73,670,817		$ 62,060,684

	2019	2018
Investments in mortgages, beginning of year	$ 62,060,684	$ 33,963,829
Impact of adopting IFRS 9	-	(99,625)
Provision for expected credit loss	(1,136,023)	(37,352)
Funding of investments in mortgages	65,746,270	73,581,122
Principal payments on investments in mortgages	(59,167,364)	(52,904,569)
Interest capitalized to investments in mortgages	3,585,629	3,345,289
Changed in accrued interest	45,189	200,011
Effect of foreign exchange on investments in mortgages, beginning of year	(2,443,856)	2,620,671
Mortgage syndications	4,980,288	1,391,308
Investments in mortgages, end of year	$ 73,670,817	$ 62,060,684

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 10.29% (2018 - 11.01%) and mature between 2020 and 2023. 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 established by HSBC Bank Canada (“Prime Rate”) for Canadian dollar loans.

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.

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

4. Investments in mortgages (continued):

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 statement of financial position. The carrying value of transferred assets and corresponding non-recourse liabilities is $6,371,596 (2018 - $1,391,308).

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, 2019, the Trust had nil mortgages that were in default (2018-nil).

Principal payments are due based on contractual maturities of each loan as follows:

Maturity period	Number	Amount
2020	19	$ 27,285,475
2021	17	21,151,364
2022	4	13,758,587
2023	2	5,793,366
	42	$ 67,988,792

(a) Provision for mortgage losses:

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

	December 31, 2019			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 48,837,590	$ 3,000,000	$5,261,125	$ 57,098,715
Industrial	5,250,000	-	-	5,250,000
Other	5,640,077	-	-	5,640,077
	$ 59,727,667	$ 3,000,000	$5,261,125	$ 67,988,792

	December 31, 2018			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 50,945,505	$ 8,490,138	$ -	$ 59,435,643
Industrial	832,469	-	-	832,469
	$ 51,777,974	$ 8,490,138	$ -	$ 60,268,112

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

4. Investments in mortgages (continued):

(a) Provision for mortgage losses (continued):

Provision for mortgage losses	December 31, 2019 Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 147,078	$ -	$ 1,100,000	$ 1,247,078
Industrial	12,349	-	-	12,349
Other	13,573	-	-	13,573
	$ 173,000	$ -	$ 1,100,000	$ 1,273,000

The provision for mortgage losses at December 31, 2019 is $1,273,000 (2018 - $136,977). Stage 1 provisions of $173,000 represent 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. The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and Stage 3. Management estimated the ECL for these as $1,100,000, primarily due to a decrease in the mortgage collateral value held on one of the mortgages.

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

IFRS 9	December 31, 2019 Stage 1	Stage 2	Stage 3	Total
December 31, 2018	$ 136,977	$ -	$ -	$ 136,977
Provision for mortgage losses for 2019:				
Transfers to (from) Stage 1 [1]	-	-	-	-
Transfers to (from) Stage 2 [1]	-	-	-	-
Transfers to (from) Stage 3 [1]	-	-	-	-
Net remeasurement [2]	(35,685)	-	1,100,000	1,064,315
Mortgage advances	109,739	-	-	109,739
Mortgage repayments	(38,031)	-	-	(38,031)
Write-offs	-	-	-	-
	$ 173,000	$ -	$ 1,100,000	$ 1,273,000

(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.*

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

5. Investments held at fair value:

The summary below lists the Trust's investments held at fair value, their name, type and percentage of ownership:

	Balance, January 1, 2019	Additions to investments	Change in fair value	Impact of Foreign Exchange Translation	Balance, December 31, 2019
Trez Blue Diamond LP (a)	$ -	$ 1,272,757	$ 8,915	$ (23,951)	$ 1,257,721
Trez Avilla Meadows LP (b)	-	1,588,306	13,050	(5,358)	1,595,998
	$ -	$ 2,861,063	$ 21,965	$ (29,309)	$ 2,853,719

(a) During 2019, the Trust made an investment in Trez Blue Diamond LP, in which it holds a 2% interest in the entity at December 31, 2019. Trez Blue Diamond LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution.

(b) During 2019, the Trust made an investment in Trez Avilla Meadows LP, in which it holds a 4% interest in the entity at December 31, 2019. Trez Avilla Meadows LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangements with a US domiciled financial institution.

6. Trust units:

The Trust has authorized the issuance of an unlimited number of units. Units may from time to time be issued in one or more series in such number and with such fixed return and term as the Manager may determine.

(a) Series A, C, D and E redeemable units:

Series A, C, D and E units have voting and retraction rights and a term of 45 months from the date of issue of each Series A, C, D and E unit. The Series A, C, D and E units are entitled to a fixed return (defined as the set per annum percentage rate of the Subscription price for such Series, payable quarterly) of 7.1%, 7.2%, 7.5% and 7.1% per annum respectively. At the end of such term, Series A, C. D and E Unitholders shall be entitled to receive an amount equal to any accrued but unpaid fixed return on the units, together with the subscription price paid for such units. Series A, C, D and E units are not entitled to a residual equity interest in the net assets of the Trust. The Series A, C, D and E units are classified as financial liabilities. Units are redeemable at the demand of the Unitholders on thirty days' notice in increments not less than $5,000, at a redemption price equal to 95% of the subscription price paid. The gains on redemption are recognized in the statement of comprehensive income in the period during which the redemptions take place. The gains on redemption form part of Net Revenue (defined as for a particular calendar quarter, net earnings of the Trust determined in accordance with IFRS, excluding unrealized gains arising from the revaluation of Investments and before the Aggregate Fixed Return) and therefore are available to pay the Aggregate Fixed Return (defined as an amount equal to the fraction of the Fixed Return for a Series based upon the proportion that the number of days in the calendar quarter that units of the Series are issued and outstanding multiplied by the subscription price for all units issued and outstanding in the Series, less any applicable taxes payable or allowable expenses) during the period in which the redemptions take place. Gains on redemption recorded to December 31, 2019 was $11,307 (2018 - $14,048) and included in other income on the statement of comprehensive income.

Payment of quarterly distributions and amounts due on redemption or termination of the Trust may, in certain circumstances, be funded by the Manager's Support Investment as described in note 6(b).

The Trust makes cash distributions to the Unitholders on a quarterly basis. Distributions are paid in arrears on the 15th day following the respective quarter.

As at December 31, 2019, distribution payable on Series A, C, D and E units totals $1,341,015 (2018 - $1,003,762).

6. Trust units (continued):

(b) Series B subordinated units:

Series B units (or “the Manager's Support Investment”) have no voting rights or a fixed return, have retraction rights and an indefinite term, and are subordinated to payment of the fixed return for all other units other than Series B units, the amount repayable on redemption or retraction of all other units other than Series B units and all other liabilities of the Trust. Series B units are classified as equity on the statement of financial position due to being the most subordinate units of the Trust.

The Retraction proceeds payable for each Series B Unit redeemed, prior to termination of the Trust, will be equal to the lesser of Net Asset Value of such Unit at the time after allowance for the Retraction of Series A, C, D and E units and the payment of their Fixed Return, and $10.00. On termination of the Trust, the Series B units may receive distributions, if any, only after payment of creditors and any payments to Unitholders in respect of the Aggregate Fixed Return or for Redemption or Retraction of Units, such that the Manager, which holds all of the Series B units, will receive any balance of monies remaining in the Trust after all monies payable to other Unitholders and all liabilities of the Trust are paid.

The Manager has agreed that, upon and after the Trust having issued Series A, C, D and E redeemable units, 5% of the aggregate subscription price of all units then issued and outstanding will be subscribed by the Manager as a required investment amount at all times during the term of the Trust. The Series B units will be invested as part of the general assets of the Trust and will not be kept separate from the other investments of the Trust.

If a shortfall occurs in the funds available for distribution to Unitholders or to make payments to Unitholders of Series A, C, D and E for the fixed return, Retraction proceeds or Redemption proceeds, the funds representing the Manager's Support Investment will be paid to the Unitholders by the Trust to the extent required to meet such shortfall and any prior shortfall, to a maximum of the Required Investment Amount in respect of the Trust. If the Manager's

Support Investment is drawn upon by the Trust, the Manager's Support Investment will only be replenished by way of additional Series B units subscribed for by the Manager to the Required Investment Amount in the event that the Manager continues to accept new subscriptions of units only to the extent of 5% of the aggregate Subscription Price of the additional Units subscribed for.

The Trust makes a distribution to the Series B Unitholders on a quarterly basis. For each quarter ending March 31, June 30 and September 30, the Trust distributes an amount that is an estimate of the expected annual distribution based on the year-to-date financial results of the Trust.

6. Trust units (continued):

(b) Series B subordinated units (continued):

The Series B distribution to be made in respect of the December 31 year-end will be equal to the amount by which the Taxable Income and the non-taxable portion of the Net Realized Capital Gains of the Trust for the particular year exceeds the sum of: (a) the Aggregate Fixed Return for all Series A, C, D and E redeemable units for such year (including the non-taxable portion of any realized capital gains attributed thereto); and (b) the previous distributions made to the Series B Unitholder in that year. The year-end distribution will be paid in arrears not later than March 15 following the year-end.

Distributions to the Series B Unitholders may be made in either cash or units.

As at December 31, 2019, the Trust had over distributed to holders of Series B units and has a Due from Series B Unitholders in the amount of $787,284 (2018 - $461,298 distribution payable).

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

6. Trust units (continued):

(c) Units issued:

	December 31, 2019		December 31, 2018	
	Number	Amount	Number	Amount
Series A redeemable units:				
Issued and outstanding, beginning of period	1,053,477	10,534,770	1,064,922	10,649,220
Units redeemed	(10,120)	(101,200)	(11,445)	(114,450)
Issued and outstanding, end of period	1,043,357	10,433,570	1,053,477	10,534,770
Series C redeemable units:				
Issued and outstanding, beginning of period	3,252,036	32,520,360	2,599,346	25,993,460
Units issued for cash	-	-	669,340	6,693,400
Units redeemed	(7,196)	(71,960)	(16,650)	(166,500)
	3,244,840	32,448,400	3,252,036	32,520,360
Series D redeemable units:				
Issued and outstanding, beginning of period	1,488,807	14,888,070	-	-
Units issued for cash	530,916	5,309,160	1,488,807	14,888,070
Units redeemed	(4,796)	(47,960)	-	-
	2,014,927	20,149,270	1,488,807	14,888,070
Series E redeemable units:				
Issued and outstanding, beginning of period	-	-	-	-
Units issued for cash	1,150,000	11,500,000	-	-
Units redeemed	(501)	(5,010)	-	-
	1,149,499	11,494,990	-	-
Series A, C, D & E redeemable units Issued and outstanding, end of period	7,452,623	74,526,230	5,794,320	57,943,200
Series B subordinated units:				
Issued and outstanding, beginning of period	289,717	2,659,875	183,213	1,905,385
Impact of adopting IFRS 9	-	-	-	(99,625)
Units issued for cash	84,046	840,460	107,909	1,079,090
Units redeemed	(1,131)	(11,307)	(1,405)	(14,047)
Net income for the period	-	739,418	-	1,242,516
Distributions to Series B	-	(572,840)	-	(1,453,444)
Issued and outstanding, end of period *	372,632	$ 3,655,606	289,717	$ 2,659,875

*Equal to 5% of issued and outstanding Series A, C, D and E redeemable units in accordance with Declaration of Trust

7. Bank indebtedness:

The Trust has a credit facility with a Canadian bank providing for borrowings up to $2,000,000 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, 2019, the borrowing available under the credit facility was $480,000 (2018 - $10,000) based on the margin requirement. Interest is calculated at the bank's prime rate plus 1.1% per annum and a standby fee is calculated on the undrawn portion of the facility at 0.35% per annum. As at December 31, 2019, no amounts have been drawn down on the credit facility (2018 - nil).

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 EBITDA at any time to exceed 2.50 to 1.00;

(b) permit its ratio of bank debt to tangible net worth at any time to exceed 0.65 to 1.00; or

(c) permit its tangible net worth at any time to be less than $20,000,000.

These covenants place restrictions on, among other things, the ability of the Trust to incur additional indebtedness, to pay distribution to Series B unitholders (note 6), and to sell or otherwise dispose of assets. During the year ended December 31, 2019, the Trust was in compliance with all such covenants.

The credit facility is collateralized by a general security agreement creating a first priority security interest in 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 within Canada.

As at December 31, 2019, $16,243 (2018 - $21,977) in deferred financing costs will be amortized over the remaining term of the credit facility.

8. Income taxes:

The Trust qualifies as a mutual fund trust under the Income Tax Act (Canada). For purposes of the Tax Act, the Trust is required to compute its Canadian tax results using Canadian currency. Where an amount that is relevant in computing the Trust's Canadian tax results is expressed in U.S. dollars, such amount must be converted to Canadian currency, generally using the rate of exchange on the day such amount arose. As a result, the Trust may recognize gains and losses for tax purposes by virtue of the fluctuation of the value of the U.S. dollar relative to Canadian dollar. Any net gain realized by the Trust for a particular taxation year may be made payable to Unitholders and is thus required to be included in computing Unitholders' income for Canadian tax purposes.

Pursuant to the Declaration of Trust, the distributions to Unitholders in each year will be considered to have been made firstly from net realized capital gains of the Trust for the year and secondly from the taxable income of the Trust in excess of the taxable portion of net realized capital gains. It is expected that the Trust will distribute the full amount of its taxable income for each year, and thus, the Trust will not pay any tax under Part I of the Tax Act.

9. Related party transactions and balances:

The Trust invests in mortgages on a participation basis with parties related to the Manager. Titles to mortgages are 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. In addition, certain duties are performed by the Mortgage Broker. TCC Mortgage Holdings Inc. and the Mortgage Broker are related to the Manager and the Trustee through common control. In cases where mortgages are held on a participation basis:

- The Trust's rights are as outlined in the Trust Agreement and in a Mortgage Participation and Servicing Agreement with the Mortgage Broker. The Trustee will hold the Trust's interest in the mortgages and underlying security.
- Pursuant to these agreements, the Mortgage Broker agrees to administer and service 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 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, 2019, the Trust purchased investments in mortgages of $10,339,951 (2018 - $20,178,391) and sold investments in mortgages of $15,872,146 (2018 - $10,030,511) to entities under common management.

In 2018, the Trust purchased a mortgage from a related fund at a risk adjusted discount of $700,000.

Amounts receivable of $3,539 (2018 - $9,291) is receivable from the Manager. The amounts receivable is composed of certain reimbursable expenses, is non-interest bearing and due on demand.

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

10. Financial instruments and risk management:

(a) Fair values:

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.

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).

	Carrying value			
December 31, 2019	Amortized cost	Other financial FVTPL	Liabilities	Fair value
Assets not measured at fair value:				
Cash and cash equivalents	$ 6,882,522	$ -	$ -	$ 6,882,522
Margin deposits	750,000	-	-	750,000
Investments in mortgages	73,670,817	-	-	73,670,817
Amounts receivable	3,539	-	-	3,539
Due from holders of Series B subordinated units	787,284	-	-	787,284
Assets measured at fair value:				
Margin deposits (Level 2)	-	750,000	-	750,000
Foreign currency derivatives (Level 2)	-	901,414	-	901,414
Investments held at fair value (Level 3)	-	2,853,719	-	2,853,719
Financial liabilities not measured at fair value:				
Distributions payable on holders of Series A, C. D and E redeemable units	-	-	1,341,015	1,341,015
Distribution payable on holders of Series B subordinated units	(787,284)	-	-	(787,284)
Redeemable units, representing net assets attributable to holders of redeemable units	74,526,230	-	-	74,526,230
Syndicated loan liability	6,371,596	-	-	6,371,596

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

10. Financial instruments and risk management (continued):

(a) Fair values (continued):

	Carrying value			
December 31, 2018	Amortized cost	Other financial FVTPL	Liabilities	Fair value
Assets not measured at fair value:				
Cash and cash equivalents	$ 1,632,877	$ -	$ -	$ 1,632,877
Investments in mortgages	62,060,684	-	-	62,060,684
Amounts receivable	9,291	-	-	9,291
Assets measured at fair value:				
Margin deposits (Level 2)	-	390,000	-	390,000
Financial liabilities not measured at fair value:				
Distributions payable on holders of Series A, C. D and E redeemable units	-	-	1,003,762	1,003,762
Distribution payable on holders of Series B subordinated units	-	-	461,298	461,298
Redeemable units, representing net assets attributable to holders of redeemable units	-	-	57,943,200	57,943,200
Syndicated loan liability	-	-	1,391,308	1,391,308
Liabilities measured at fair value:				
Foreign currency derivatives (Level 2)	-	517,717	-	517,717

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

(*i*) Investments in mortgages:

There is no quoted price in an active market for the mortgage investments. 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.

(*ii*) 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.

10. Financial instruments and risk management (continued):

(a) Fair values (continued):

(*ii*) Foreign currency derivatives (continued):

Depending on the financial institutions with which the Trust enters the foreign exchange contracts, the Trust is subject to margin call(s) when the contracts are out of money or required to pay five percent of the notional amount when the Trust entered into the foreign exchange contracts. The margin deposits will be released when the contracts are in the money or mature. At December 31, 2019, there was $750,000 (2018 - $390,000) in margin deposit held by financial institutions on the Trust's account.

(*iii*) Investments held at fair value:

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 Company's investments in mortgages and mortgage syndication liabilities are carried at fair value in the financial statements.

There is no quoted price in an active market for the investments held at fair value. The investments held at fair value consists of a portlio of mortgage loans in the United States. The Manager makes its determination of fair value based on its assessment of the current lending market and credit risk for mortgage investments of same or similar terms. The fair value of the portfolio of mortgage loans has been determined based on a cash flow model discount rates based on current market rates and adjusted for any change in the credit risk of the borrower.

Typically, the fair value of these investments approximate their carrying value given the investments consist of short-term mortgages and the mortgages have variable interest rates. A 0.25% increase/decrease in credit risk, with all other variables held constant, would increase/decrease the fair value of the investments by approximately $3,008.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Company's investments. 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).

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

10. Financial instruments and risk management (continued):

(a) Fair values (continued):

(*iii*) Investments held at fair value (continued):

The Trust's assets and liabilities recorded at fair value have been categorized as follows:

2019	Level 1	Level 2	Level 3	Total
Investments held at fair value	$ -	$ -	$ 2,853,719	$ 2,853,719

There were nil investments held at fair value in 2018.

There were no transfers between levels during 2019 (2018 - nil).

A reconciliation of Level 3 assets at December 31, 2019 is as follows:

Investments held at fair value, December 31, 2018	$ -
Additions to / (disposals of) investments	2,861,063
Change in fair value	21,965
Impact of foreign exchange translation	(29,309)
Investments held at fair value, December 31, 2019	$ 2,853,719

The key valuation techniques used in measuring the fair values of investments in mortgages include:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Investment cost/ Enterprise value	Enterprise value	The estimated fair value would increase / (decrease) if enterprise value is increased (decreased)
Discounted cash flow	Net operating income Discount rate Probability of cash flows	The estimated fair value would increase/ (decrease) with changes in significant unobservable Inputs

10. Financial instruments and risk management (continued):

(a) Fair values (continued):

(*iv*) Other financial assets and liabilities:

The fair values of cash and cash equivalents, margin deposits, amounts receivable, distribution payable on Series A, C, D and E redeemable units, and distribution payable on Series B subordinated units approximate their carrying value due to their short-term maturities.

(*v*) Series A, C, D and E redeemable units:

The Trust may redeem and issue 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 what is disclosed in note 6(a). 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.

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2019 and 2018.

(b) Financial risk management:

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

(*i*) 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:

(*ii*) 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, from cash and 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).

10. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*ii*) Credit risk (continued):

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. In addition, the Trust is not allowed, except for its initial investments which consist of the first $10,000,000 of the mortgage portfolio (the "Initial Mortgage Portfolio"), to invest more than 10% of its assets in mortgages on the same property at the time of funding.

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.

As at December 31, 2019, the largest mortgage investment in the Trust's mortgage portfolio was $5,261,125 (2018 - $5,337,081) which is 6.7% (2018 - 8.8%) of the Trust's net asset value (including net assets attributable to Series A, C, D and E), and 7.7% (2018 - 8.9%) of its mortgage portfolio.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2019 is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

(*iii*) 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. The Trust has access to a Manager's Support Investment (note 6(b)).

As at December 31, 2019, 40.1% (2018 - 49.3%) of the Trust's mortgage portfolio, being $27,285,475, is due on or before December 31, 2020 (2018 - $29,719,960 was due on or before December 31, 2019). There are no mortgages that are past due as at December 31, 2019 (2018 - nil).

The redemption dates and amounts of each Series issued and corresponding repayments of Manager's Support Loan to reduce it to equal 5% of aggregate net assets available to non-equity unitholders are outlined in note 11.

All other liabilities are short-term in nature and repayable within one year. In the Manager's opinion, the Trust has sufficient resources to meet its current cash flow requirements.

10. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*iv*) 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 the US and Canada that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its unitholders.

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 (continued):

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 fixed rate and short-term variable rate mortgages with floor rates which are greater than the fixed rate return paid to its Unitholders.

A 0.25% increase in interest rates with all other variables held constant would increase the Trust's interest income by an estimated $75,473 (2018 - $18,993), as a result of higher interest earned on the cash on hand and variable rate mortgage investments.

A 0.25% decrease in interest rates with all other variables held constant would decrease interest income by an estimated $19,081 (2018 - $5,057) as a result of lower interest earned on the cash on hand and variable rate mortgage investments.

(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 the US dollar however the Trust receives capital and pays distributions in Canadian dollars.

10. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*iv*) Market risk (continued):

(B) Currency risk (continued):

The Trust has put in place steps to mitigate impacts from fluctuations in foreign exchange as it has entered into forward exchange contracts to manage its foreign exchange exposure. As at December 31, 2019, the Trust was participating in three forward exchange contracts to sell US dollars totaling $40,823,525 ($53,905,766 in Canadian dollars (2018 - $38,283,248 ($51,696,385 in Canadian dollars)) at a weighted average forward rate of 1.320 with settlement on January 16, 2020 at which time the Trust will enter into new forward exchange contracts. The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2019 is an asset of $901,414 (2018 – liability of $517,717).

The table below indicates the foreign currency to which the Trust had unhedged exposure at December 31, 2019. It also illustrates the potential impact on the redeemable units, representing net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 5% in relation to the other currency, with all other variables held constant.

Increase (decrease) in CAD:

2019 Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 42,321	$ 2,116
Percentage of net assets attributable to redeemable units	0.06%	0.00%

2018 Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 61,836	$ 3,092
Percentage of net assets attributable to redeemable units	0.10%	0.01%

10. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*iv*) Market risk (continued):

(C) Other price risk:

The Trust is exposed to price risk because of its investment in mortgages and investments held at fair value. 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 maintaining strong borrower relationships and actively monitoring of all loans.

11. Capital management:

The Trust considers net assets attributable to holders of Series A, C, D and E redeemable units and net assets attributable to holders of Series B subordinated units to be capital, which at December 31, 2019 were $78,181,836 (2018 - $60,603,075).

The Trust's objectives when managing capital are:

- to safeguard the Trust's ability to continue as a going concern so that it can continue to provide a fixed return to its unitholders; and
- to provide a quarterly return for unitholders from income earned from a portfolio of mortgages invested in by the Trust.

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. The Trust invests in mortgage investments using the services of a Mortgage Broker retained by the Manager. The Mortgage Broker has an established track record as a loan originator, underwriter, servicer and syndicator. The Manager may, at any time and from time to time, authorize the Trust to issue additional Series without the authorization of unitholders.

Each Series has a stated fixed return and term. The Trust uses an exclusive agent to sell the Trust's Units to investors. All Units, irrespective of the Series, will share in the same pool of mortgages and the net income derived from such mortgages on a pari passu basis. The Manager's investment strategy continues to be to preserve investor capital, while providing a consistent stream of interest income.

The capital requirements of the Trust run pari passu with the maturity schedule and notional amounts of each Series issued. The capital balance will reduce with each corresponding payment required upon redemption of a Series, which determines the aggregate net assets available to non-equity unitholders.

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

11. Capital management (continued):

The Units have a term of 45 months from the date of issue, at which time they are to be redeemed at a price equal to the subscription price of $10 per unit.

Maturity schedule as at December 31, 2019:

	Less than 12 months	12 - 24 months	More than 24 months
Series A	$ 10,433,570	$ -	$ -
Series C	11,445,000	21,003,400	-
Series D	-	-	20,149,270
Series E	-	-	11,494,990
Series B	1,075,476	1,027,607	1,551,952
	$ 22,954,046	$ 22,031,007	$ 33,196,212

12. Subsequent event:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. These impacts could include increases in expected credit losses for mortgage investments and potential future decreases in revenue or the profitability of our ongoing operations.

It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Trust.