TREZ CAPITAL
PRIME TRUST

Financial Statements
(Expressed in Canadian dollars)

TREZ CAPITAL PRIME TRUST

And Independent Auditors’ Report thereon

Year ended December 31, 2021

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Trez Capital Prime Trust

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

- the statement of financial position as at December 31, 2021
- the statement of comprehensive income (loss) 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, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 20, 2022

TREZ CAPITAL PRIME TRUST

Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Assets			
Cash and cash equivalents		$ 62,785,999	$ 25,889,960
Foreign currency derivatives and margin deposits	12	5,591,379	2,800,283
Other assets	10	13,070,947	313,313
Due from related parties	10	241,784	767,440
Deferred financing fees		253,053	335,124
Investments in mortgages	4	277,337,016	338,147,116
Investments held at fair value	5	21,006,266	-
Promissory notes receivable	6	4,870,225	9,265,871
		$ 385,156,669	$ 377,519,107
Liabilities and Net Assets Attributable To Holders of Redeemable Units			
Accounts payable and accrued liabilities	10	$ 984,734	$ 680,561
Distributions payable to holders of redeemable units	9	478,754	507,272
Mortgage syndication liabilities	4	45,347,440	49,563,385
		46,810,928	50,751,218
Redeemable units, representing net assets attributable to holders of redeemable units	8	338,345,741	326,767,889
		$ 385,156,669	$ 377,519,107

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:

(Signed) "*John Maragliano*" Director

(Signed) "*Dean Kirkham*" Director

TREZ CAPITAL PRIME TRUST

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

Year ended December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Revenue:			
Interest income		$ 24,412,377	$ 25,605,247
Interest expense on mortgage syndication liabilities		(2,521,291)	(2,976,753)
		21,891,086	22,628,494
Expenses:			
Management and incentive fees	10	5,771,802	6,290,190
Commissions		126,640	147,859
Foreign exchange loss		366,095	304,882
General and administrative		1,467,028	1,444,601
Provision for (recovery of) mortgage losses	4(a)	(55,687)	331,000
		7,675,878	8,518,532
Unrealized fair value gains on investments held at fair value	5	465,123	-
Income from operations		14,680,331	14,109,962
Financing costs:			
Distributions to holders of redeemable units	9	14,394,331	14,441,786
Net comprehensive income (loss) attributable to holders of redeemable units		$ 286,000	$ (331,824)

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, 2021, with comparative information for 2020

	2021	2020
Balance, beginning of year	$ 326,767,889	$ 293,227,241
Net comprehensive income (loss) attributable to holders of redeemable units	286,000	(331,824)
Contributions and redemptions by holders of redeemable units:		
Issuance of units	79,683,127	94,786,558
Reinvestment of distributions on redeemable units	8,526,877	8,411,841
Redemptions	(76,918,152)	(69,325,927)
	11,291,852	33,872,472
Balance, end of year	$ 338,345,741	$ 326,767,889

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, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Income (loss) attributable to holders of redeemable units	$ 286,000	$ (331,824)
Items not involving cash:		
Unrealized (gain) loss on foreign currency derivatives	(271,096)	1,892,233
Interest income, net of interest expense on syndications	(21,891,086)	(22,628,494)
Distributions to holders of redeemable units	14,394,331	14,441,786
Provision for mortgage losses	(55,687)	331,000
Fair value gain on investments held at fair value	(465,123)	-
Interest received	8,513,506	13,384,459
Changes in non-cash operating working items:		
Other assets	207,325	(51,907)
Margin deposits	(2,520,000)	(1,510,000)
Accounts payable and accrued liabilities	304,173	(1,154,878)
	(1,497,657)	4,372,375
Investing activities:		
Funding of investments in mortgages	(225,961,025)	(233,596,093)
Repayments on investments in mortgages	283,105,556	227,835,350
Funding of investments held at fair value	(20,541,143)	-
Repayment of promissory note receivable	4,395,647	912,665
	40,999,035	(4,848,078)
Financing activities:		
Distributions paid	(5,895,970)	(7,885,925)
Issuance of units	79,683,127	94,786,558
Redemptions	(76,918,152)	(69,325,927)
Due from related parties	525,656	(601,870)
	(2,605,339)	16,972,836
Increase in cash and cash equivalents	36,896,039	16,497,133
Cash and cash equivalents, beginning of year	25,889,960	9,392,827
Cash and cash equivalents, end of year	$ 62,785,999	$ 25,889,960

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

1. Nature of business:

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, 2020.

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 Trust also generates income from interests in entities that allow the Trust to participate in loan sharing arrangements with third party United States based financial institutions ("Special Purpose Entities").

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

On March 11, 2020, the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization. Emergency measures to contain the spread of the virus were implemented , which impacted general economic conditions, including the temporary closure of business and uncertainty around employment in certain industries. Although global economies are reopening, the situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Trust 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 ongoing operations.

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 20, 2022.

(b) Basis of measurement:

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

2. Basis of preparation (continued):

(c) Functional and presentational currency:

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

(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(g)(*ii*). 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 entities that allow the Trust to participate in loan sharing arrangements with third party US based financial institutions (“Special Purpose Entities”). 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 Trust has determined that it 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 and cash equivalents:

Cash and cash equivalents consist 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 deposits made on foreign currency swap transactions.

(c) Promissory notes receivable:

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

(d) 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 $60,000,000 by way of a demand revolving loan.

(e) 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.

(f) Distributions on redeemable units:

The total distributions to be made in respect of the December 31 year end will equal at least 100% of the Trust’s taxable income for the year, including taxable capital gains. Distributions are accrued as finance expense in the period to which they relate.

3. Significant accounting policies (continued):

(g) Revenue recognition:

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

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

(h) Foreign currency translation:

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

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

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

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

(i) 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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

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

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.

The Trust has classified its financial instruments as follows:

	Classification
Financial assets:	
Cash and cash equivalents	Amortized cost
Foreign currency derivatives and margin deposits	FVTPL
Due from related parties	Amortized cost
Investments in mortgages	Amortized cost
Investments held at fair value	FVTPL
Promissory notes receivable	Amortized cost
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Distribution payable to holders of redeemable units	Amortized cost
Mortgage syndication liabilities	Amortized cost
Net assets attributable to holders of redeemable units	Amortized cost

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(*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.

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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(*ii*) Impairment (continued):

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.

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):

(i) Financial instruments (continued):

(*ii*) Impairment (continued):

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.

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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(*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 (loss).

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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

(*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 borrower 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.

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 loss. 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 loss. 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.

(j) New standards adopted effective January 1, 2021:

In August 2021, the IASB published the *Interest Rate Benchmark Reform - Phase 2*, which amended IFRS 9, *Financial Instruments*; IAS 39, *Financial Instruments: Recognition and Measurement*; IFRS 7, *Financial Instruments: Disclosure*; IFRS 1, *Insurance Contracts*; and IFRS 16, *Leases*. The Phase 2 amendments addressed issues that may affect financial reporting related to financial instruments and hedge accounting resulting from the reform of an interest rate benchmark. The amendments were effective and adopted by the Trust on January 1, 2021. The Trust adopted the amendments related to the interest rate benchmark reform and there was no material effect on its financial statements as at and for the year ended December 31, 2021.

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

4. Investments in mortgages:

The Trust holds mortgages on the following properties:

	2021			2020		
Property type	Number		Amount	Number		Amount
Industrial	4	$	16,952,455	7	$	38,023,043
Hotel	3		27,873,452	3		27,728,860
Residential	35		160,408,913	39		183,321,384
Retail	2		11,781,720	2		11,987,561
Office	4		14,115,630	4		26,394,717
Mortgage portfolio	48		231,132,170	55		287,455,565
Mortgage syndications			45,347,440			49,563,385
Accrued interest			1,591,719			1,918,166
Less provision for mortgage losses (note 4(a))			(734,313)			(790,000)
Investments in mortgages		$	277,337,016		$	338,147,116

	2021			2020		
Property location	Number		Amount	Number		Amount
British Columbia	14	$	63,237,225	20	$	110,647,549
Alberta	6		39,733,671	7		40,301,300
Ontario	5		29,535,907	2		4,937,548
Texas	5		20,692,298	8		32,995,142
Florida	4		17,523,443	5		17,543,745
Arizona	2		3,522,370	3		29,876,968
California	1		6,620,885	1		12,060,329
Washington	1		8,308,021	1		7,435,330
Georgia	4		8,977,269	5		11,168,066
North Carolina	1		13,931,452	1		13,758,361
Oregon	1		9,096,826	-		-
Alabama	-		-	1		3,025,663
Colorado	-		-	1		3,705,564
Idaho	1		796,268	-		-
Indiana	2		8,913,081	-		-
Pennsylvania	1		243,454	-		-
Total mortgages	48	$	231,132,170	55	$	287,455,565

The following table presents the reconciliation of mortgages as at December 31, 2021 and 2020:

		2021		2020
Investments in mortgages, beginning of year	$	338,147,116	$	312,443,366
Funding of investments in mortgages		225,961,025		233,596,093
Interest capitalized to investments in mortgages		13,704,027		9,207,462
Repayments on investment in mortgages		(283,105,556)		(227,835,350)
Change in accrued interest		(326,450)		36,574
Transfer to unsecured note				(5,392,984)
Change in provision for expected credit losses		55,687		(331,000)
Change in mortgage syndication liabilities		(4,215,945)		16,422,955
Transfer to other assets		(12,882,888)		-
Investments in mortgages, end of year	$	277,337,016	$	338,147,116

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

4. Investments in mortgages (continued):

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.

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 7.70% (2020 - 8.00%) and mature between 2022 and 2024, except three mortgages which are past due (2020 - two mortgages), as illustrated in the table below. The mortgage agreements stipulate various fixed interest rates for U.S. 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	3	$ 33,085,304
2022	25	119,766,927
2023	17	52,828,912
2024	3	25,451,027
	48	$ 231,132,170

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 (loss).

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. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is $45,347,440 (2020 - $49,563,385).

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.

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

4. Investments in mortgages (continued):

As at December 31, 2021, the Trust had two mortgages in default (2020 - one).

(a) Provision for mortgage losses:

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

	December 31, 2021			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 16,952,455	$ -	$ -	$ 16,952,455
Hotel	27,873,452	-	-	27,873,452
Residential	123,675,242	2,860,823	33,872,848	160,408,913
Retail	11,781,720	-	-	11,781,720
Office	14,115,630	-	-	14,115,630
	$ 194,398,499	$ 2,860,823	$ 33,872,848	$ 231,132,170

	December 31, 2020			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 38,023,043	$ -	$ -	$ 38,023,043
Hotel	27,728,860	-	-	27,728,860
Residential	138,980,781	27,901,517	16,439,086	183,321,384
Retail	11,987,561	-	-	11,987,561
Office	26,394,717	-	-	26,394,717
	$ 243,114,962	$ 27,901,517	$ 16,439,086	$ 287,455,565

	December 31, 2021			
Provision for credit losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 35,000	$ -	$ -	$ 35,000
Hotel	44,000	-	-	44,000
Residential	387,000	-	230,313	617,313
Retail	6,000	-	-	6,000
Office	32,000	-	-	32,000
	$ 504,000	$ -	$ 230,313	$ 734,313

	December 31, 2020			
Provision for credit losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 148,000	$ -	$ -	$ 148,000
Hotel	85,000	-	-	85,000
Residential	445,000	-	-	445,000
Retail	24,000	-	-	24,000
Office	88,000	-	-	88,000
	$ 790,000	$ -	$ -	$ 790,000

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

4. Investments in mortgages (continued):

(a) Provision for mortgage losses (continued):

The provision for mortgage losses at December 31, 2021 is $734,313 (2020 - $790,000). Stage 1 provisions of $504,000 (2020 - $790,000) 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 $230,313 (2020 - nil). During the year ended December 31, 2021, $230,313 (2020 - nil) Stage 3 provisions were recognized as a realized loss.

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

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	$ 790,000	$ -	$ -	$ 790,000
Provision for mortgage losses for 2021:				
Transfers to (from) Stage 1[(1)]	-	-	-	-
Transfers to (from) Stage 2[(1)]	-	-	-	-
Transfers to (from) Stage 3[(1)]	-	-	-	-
Net remeasurement[(2)]	(274,000)	-	230,313	(43,687)
Mortgage advances	331,000	-	-	331,000
Mortgage repayments	(343,000)	-	-	(343,000)
Write-offs	-	-	-	-
December 31, 2021	$ 504,000	$ -	$ 230,313	$ 734,313

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
December 31, 2019	$ 459,000	$ -	$ -	$ 459,000
Provision for mortgage losses for 2020:				
Transfers to (from) Stage 1[(1)]	(21,000)	-	-	(21,000)
Transfers to (from) Stage 2[(1)]	-	-	-	-
Transfers to (from) Stage 3[(1)]	-	-	-	-
Net remeasurement[(2)]	65,000	-	-	65,000
Mortgage advances	457,000	-	-	457,000
Mortgage repayments	(170,000)	-	-	(170,000)
Write-offs	-	-	-	-
December 31, 2020	$ 790,000	$ -	$ -	$ 790,000

(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, December 31, 2020	Additions to/ (disposals of) investments	Unrealized change in fair value	Balance, December 31, 2021
Trez Capital Block 40 LP[a]	$ -	$10,790,828	$ 451,370	$ 11,242,198
Trez Capital Brooklyn Bridge[b]	-	9,750,315	13,753	9,764,068
	$ -	$20,541,143	$ 465,123	$ 21,006,266

The unrealized change in fair value includes the change related to foreign exchange totaling $278,338.

(a) During 2021, the Trust made an investment in Trez Capital Block 40 LP in which it holds a 49.6% interest as at December 31, 2021. Trez Capital Block 40 LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. Total assets of the entity are US$50,904,666 as at December 31, 2021.

(b) During 2021, the Trust made an investment in Trez Capital Brooklyn Bridge LP in which it holds a 7.4% interest as at December 31, 2021. Trez Capital Brooklyn Bridge LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. Total assets of the entity are US$176,972,228 as at December 31, 2021.

6. Promissory notes receivable:

	2021	2020
Unsecured, interest free, promissory note due on demand from a private affiliated entity (a)	$ 4,870,225	$ 4,755,309
USD unsecured, interest at 4% per annum effective January 1, 2021, promissory note due on demand from a private affiliated entity (b)	-	4,510,562
	$ 4,870,225	$ 9,265,871

(a) Land associated with a previously defaulted mortgage was transferred to a related entity, in return the Trust received an unsecured, interest free due on demand, note receivable in the amount of the outstanding mortgage.

(b) During 2020, the Manager purchased a defaulted mortgage from the Trust and, in return, the Trust received an unsecured, interest at 4% per annum effective January 1, 2021, due on demand, note receivable in the amount of the outstanding mortgage. The Manager agreed to the terms of the promissory note to provide financial support to the Trust. The loan and interest were fully repaid during 2021.

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

7. Bank indebtedness:

As at December 31, 2021, the maximum borrowing available under the credit facility is $60,000,000 (2020 - $60,000,000). The credit facility is with a Canadian Chartered bank provided for borrowings up to $10,445,935 by way of a demand revolving loan. The amount available under the credit facility was further limited by a margin requirement. Interest was previously calculated at the bank's prime rate plus 1.50% per annum and a standby fee was calculated on the undrawn portion of the facility at 0.625% per annum. As at December 31, 2021, nil (2020 - nil) has been drawn down against the credit facility.

The credit facility had financial tests and other covenants that the Trust was in compliance with.

The credit facility was 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.

8. 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, 2021, 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.

	2021		2020	
Series A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	1,657,791	$ 16,531,914	2,016,971	$ 20,140,505
Increase (decrease) in net assets	-	16,400	-	(16,794)
Issued for cash	696,414	6,964,141	254,719	2,547,189
Issued for reinvested distributions	23,376	233,761	27,517	275,175
Redeemed for cash	(434,519)	(4,345,187)	(641,416)	(6,414,161)
Issued and outstanding, end of year	1,943,062	19,401,029	1,657,791	16,531,914
Cumulative IFRS 9 Stage 1 provisions	-	29,604	-	45,962
	1,943,062	$ 19,430,633	1,657,791	$ 16,577,876

	2021		2020	
Series F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	19,260,030	$ 192,162,814	16,094,078	$ 160,698,406
Increase (decrease) in net assets	-	173,616	-	(195,108)
Issued for cash	5,955,281	59,552,814	6,736,659	67,366,588
Issued for reinvested distributions	481,247	4,812,474	451,474	4,514,738
Redeemed for cash	(5,126,724)	(51,267,237)	(4,022,181)	(40,221,810)
Issued and outstanding, end of year	20,569,834	205,434,481	19,260,030	192,162,814
Cumulative IFRS 9 Stage 1 provisions	-	263,858	-	436,990
	20,569,834	$ 205,698,339	19,260,030	$ 192,599,804

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

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

	2021		2020	
Series I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	11,838,049	$ 118,073,161	11,257,574	$ 112,388,330
Increase (decrease) in net assets	-	95,984	-	(119,922)
Issued for cash	1,316,617	13,166,173	2,487,278	24,872,781
Issued for reinvested distributions	348,064	3,480,639	362,193	3,621,928
Redeemed for cash	(2,130,573)	(21,305,726)	(2,268,996)	(22,689,956)
Issued and outstanding, end of year	11,372,157	113,510,231	11,838,049	118,073,161
Cumulative IFRS 9 Stage 1 provisions	-	211,361	-	307,048
	11,372,157	$ 113,721,592	11,838,049	$ 118,380,209

	2021		2020	
Total	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	32,755,870	$ 326,767,889	29,368,623	$ 293,227,241
Increase (decrease) in net assets	-	286,000	-	(331,824)
Issued for cash	7,968,312	79,683,127	9,478,656	94,786,558
Issued for reinvested distributions	852,687	8,526,877	841,184	8,411,841
Redeemed for cash	(7,691,816)	(76,918,152)	(6,932,593)	(69,325,927)
Issued and outstanding, end of year	33,885,053	338,345,741	32,755,870	326,767,889
Cumulative IFRS 9 Stage 1 provisions	-	504,823	-	790,000
	33,885,053	$ 338,850,564	32,755,870	$ 327,557,889

9. Distribution payable to holders of redeemable units:

The Trust distributes to its Unitholders taxable income including taxable capital gains.

The total distributions for the year were $14,394,331 (2020 - $14,441,786). The fourth quarter distribution payable at December 31, 2021 is to be distributed to the unitholders subsequent to year-end as follows:

	2021	2020
Paid in cash	$ 478,754	$ 507,272
Reinvested as Trust units	-	-
	$ 478,754	$ 507,272

10. Related party transactions and balances:

Related party transactions that are not disclosed elsewhere in these financial statements are as follows:

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; and
- The Mortgage Broker delivers cash payments for interest and principal to the Trustee.

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 $60,761,783 (2020 - $99,100,341) from, and sold investments in mortgages of $54,997,861 (2020 - $19,428,205) to entities under common management.

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.

10. Related party transactions and balances (continued):

During the year, the Trust incurred Management Fees of $5,507,369 (2020 - $5,407,771) and Incentive Fees before waivers of $1,580,193 (2020 - $1,653,135) payable to the Manager. A portion of the Incentive Fees in the amount of $1,315,760 were waived by the Manager in 2021 (2020 - $770,716). Any fees waived are no longer collectible in the current or future years. As at December 31, 2021, $743,603 (2020 - $453,007) of the current year Management Fee and Incentive Fee remained outstanding, and is included in accounts payable and accrued liabilities.

The Trust has invested in a mortgage portfolio with a balance at December 31, 2021 of $277,337,016 (2020 - $338,147,116), virtually all of which are made on a participation basis with related parties.

The Trust has invested in investments held at fair value created to enable the Trust to enter into loan sharing arrangements with United States domiciled financial institutions. The balance at December 31, 2021 was $21,006,266 (2020 - nil), virtually all of which is made on a participation basis with related parties.

Amounts due from related parties at December 31, 2021 were $241,784 (2020 - $767,440). The balance related to amounts owed from a mortgage repayment to a bank account of the Manager at the year-end of $184,366 (2020 - $765,642) and amounts receivable for invoices paid on behalf of a related party of $57,418 (2020 - $1,798).

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.

An entity related to the Manager, by virtue of common control, assumed ownership of one property and the associated mortgage held by the Trust. The total amount assumed was $2,860,823 at December 31, 2021 (2020 - $2,797,247). In addition, the entity related to the Manager provided guarantees to the Trust on the same mortgage.

During 2021, an entity related to the Manager foreclosed on a property in Venice Beach, California. As part of the foreclosure process, the entity related to the Manager assumed the mortgage provided by the Trust. At December 31, 2021, an unsecured receivable totaling $12,882,888 remains outstanding and is included within other assets on the statement of financial position. Interest payments are being made and no loss to the Trust is expected.

11. Income taxes:

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

The Trust allocates to its Unitholders taxable income including taxable capital gains that would otherwise attract tax in the Trust. Accordingly, no provision for Canadian income taxes is reflected in its financial statements.

11. Income taxes (continued):

For purposes of the *Income Tax Act (Canada)*, 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 realize 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 accrued 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. The Trust intends to distribute at least 100% of the Trust's taxable income including capital gains for the 2021 fiscal tax period.

For the year ended December 31, 2021, the taxable income of the Trust was $14,282,827 (2020 - $14,441,786) and the accounting income of the Trust attributable to holders of redeemable units was $14,680,331 (2020 - $14,109,962). In accordance with its trust indenture, the Trust distributed an amount equal to taxable income. The difference of $286,000 (2020 - $331,824) between accounting income and taxable income primarily reflects the provision for expected credit losses for Stage 1 loans related to IFRS 9 and foreign exchange translation of equity investments.

12. 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, margin deposits, promissory notes receivable, accounts payable and accrued liabilities and distributions 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").

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

12. Financial instruments and risk management (continued):

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

December 31, 2021	Carrying value Amortized Cost	 FVTPL	Fair value
Assets not measured at fair value:			
Investments in mortgages	$ 277,337,016	$ -	$ 277,337,016
Other assets	13,070,947	-	13,070,947
Due from related parties	241,784	-	241,784
Cash and cash equivalent	62,785,999	-	62,785,999
Promissory notes receivable	-	-	-
Financial liabilities not measured at fair value:			
Distribution payable on redeemable units	478,754	-	478,754
Accounts payable and accrued liabilities	984,734	-	984,734
Mortgage syndication liabilities	45,347,440	-	45,347,440
Assets measured at fair value			
Investments held at fair value	-	21,006,266	21,006,266
Foreign currency derivate (Level 2) and margin deposits	-	5,591,379	5,591,379

December 31, 2020	Carrying value Amortized Cost	 FVTPL	Fair value
Assets not measured at fair value:			
Investments in mortgages	$ 338,147,116	$ -	$ 338,147,116
Other assets	313,313	-	313,313
Due from related parties	767,440	-	767,440
Cash and cash equivalent	25,889,960	-	25,889,960
Promissory notes receivable	9,265,871	-	9,265,871
Financial liabilities not measured at fair value:			
Distribution payable on redeemable units	507,272	-	507,272
Accounts payable and accrued liabilities	680,561	-	680,561
Mortgage syndication liabilities	49,563,385	-	49,563,385
Assets measured at fair value			
Foreign currency derivate (Level 2) and margin deposits	-	2,800,283	2,800,283

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.

12. Financial instruments and risk management (continued):

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

(*ii*) Other financial assets and liabilities:

The fair values of cash and cash equivalents, accounts payable and accrued liabilities, distributions payable, and management fee payable approximate their carrying value due to their short-term maturities.

(*iii*) Investment 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 Trust'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 portfolio of mortgage loans in the United States and Canada. 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 approximates their carrying value given the investments consist of short-term mortgages and the mortgages have variable interest rates.

At December 31, 2021, a 25 basis point increase in the discount rate used in the discounted cash flow would decrease the fair value by $49,318 (2020 - 25 basis point decrease - nil) and a 25 basis point decrease in the discount rate used in the discounted cash flow would increase the fair value by $214,526 (2020 - 25 basis point increase - nil).

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

12. Financial instruments and risk management (continued):

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

(*iii*) Investment held at fair value:

The Partnership's assets and liabilities recorded at fair value have been categorized as follows at December 31, 2021 (2020 - nil):

2021	Level 1	Level 2	Level 3	Total
Investments held at fair value	$ -	$ -	$ 21,006,266	$ 21,006,266

There were no transfers between levels during 2021.

A reconciliation of Level 3, Investment held at fair value assets at December 31, 2021 is as follows:

Investments held at fair value, December 31, 2020	$ -
Additions to (disposals of) investments	20,541,143
Change in fair value	465,123
Investments held at fair value, December 31, 2021	$ 21,006,266

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
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

(*iv*) 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.

12. Financial instruments and risk management (continued):

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

(*v*) 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, 2021 and 2020.

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

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

The Manager's risk management policies are typically performed as a part of the overall management of the Trust's operations. The Manager 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. The Manager'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, the Manager 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.

12. Financial instruments and risk management (continued):

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

(*i*) Credit risk (continued):

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.

The Trust’s maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2021 and 2020 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, 2021, 14.31% of the Trust’s mortgage portfolio, being $33,085,304 is due on or before December 31, 2021 (2020 - 54.5% or $183,623,835 due before December 31, 2021), excluding the three mortgages (2020 - two) 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.

12. Financial instruments and risk management (continued):

(a) Fair values of financial instruments held at amortized cost using the fair value hierarchy (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, 2021, a 0.25% decrease or increase in interest rates with all other variables held constant would increase/decrease the Trust's income by approximately $347,819 (2020 - $389,716), 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 nil (2020 - nil) 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 United States 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, 2021, the Trust was participating in forward exchange contracts to sell United States dollars totaling $140,495,542 (2020 - $119,440,345). The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2021 is an asset of $291,379 (2020 - asset of $20,283). The foreign currency derivatives are entered into by the Mortgage Broker on behalf of the Trust with third-party financial institutions. As at December 31, 2021, the margin deposit on foreign exchange contracts, which is considered a restricted cash balance, totaled $5,300,000 (2020 - $2,780,000).

12. Financial instruments and risk management (continued):

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

(*iii*) Market risk (continued):

(B) Currency risk (continued):

The table below indicates the foreign currency to which the Trust had over hedged exposure at December 31, 2021. 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 Canadian dollars:

		2021
Currency	Over hedged exposure	Impact on net assets attributable to redeemable units 5%
United States dollars	$ 21,606	$ 1,080
% of net assets attributable to redeemable units	0.01%	0.00%

		2020
Currency	overedged exposure	Impact on net assets attributable to redeemable units 5%
United States dollars	$ 179,341	$ 8,967
% of net assets attributable to redeemable units	0.05%	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.

13. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which as at December 31, 2021 is $338,345,741 (2020 - $326,767,889).

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.