TREZ CAPITAL
PRIME TRUST

Consolidated Financial Statements
(Expressed in thousands of Canadian dollars)

TREZ CAPITAL PRIME TRUST

And Independent Auditor's Report thereon

Year ended December 31, 2023

KPMG LLP
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INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Trez Capital Prime Trust

Opinion

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

- the consolidated statement of financial position as at December 31, 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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 Accounting Standards as issued by the International Accounting Standards Board, 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 29, 2024

TREZ CAPITAL PRIME TRUST

Consolidated Statement of Financial Position
(Expressed in thousands of Canadian dollars)

December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Assets			
Cash and cash equivalents		$ 24,140	$ 21,306
Margin deposits	7	1,050	11,900
Foreign currency derivative assets	7	3,377	-
Due from related parties	11	2,010	582
Investments in mortgages	4	205,011	252,621
Investments held at fair value	5	79,270	104,666
Promissory notes receivable	6	4,509	12,766
Other assets		645	872
		$ 320,012	$ 404,713
Liabilities and Net Assets Attributable To Holders of Redeemable Units			
Accounts payable and accrued liabilities		$ 127	$ 123
Management and incentive fees payable	11(a)	2,803	2,355
Distributions payable to holders of redeemable units	9	1,555	981
Foreign currency derivative liabilities	7	534	9,294
Mortgage syndication liabilities	4	47,987	67,647
		53,006	80,400
Redeemable units, representing net assets attributable to holders of redeemable units	10	267,006	324,313
		$ 320,012	$ 404,713

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

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

(Signed) "John Maragliano"
Director

(Signed) "Dean Kirkham"
Director

TREZ CAPITAL PRIME TRUST

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

Year ended December 31, 2023, with comparative information for 2022

	Notes	2023	2022
Revenue:			
Interest income on mortgages		$ 26,438	$ 24,801
Interest expense on mortgage syndication liabilities		(5,807)	(3,171)
Other income		1,595	605
		22,226	22,235
Expenses:			
Provision (recovery) for expected credit losses	4(b), 6	(23)	23
Commissions		60	127
Foreign exchange (gain) loss		(1,064)	2,870
General and administrative		1,067	1,224
Management and incentive fees	11(a)	7,834	7,524
		7,874	11,768
Fair value gains on investments held at fair value	5	7,996	3,719
Foreign exchange (loss) gain on investments held at fair value	5	(1,882)	2,981
Income from operations		20,466	17,167
Financing costs:			
Distributions to holders of redeemable units	9	20,443	16,703
Net comprehensive income attributable to holders of redeemable units		$ 23	$ 464

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

TREZ CAPITAL PRIME TRUST

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

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Balance, beginning of year	$ 324,313	$ 338,346
Net comprehensive income attributable to holders of redeemable units	23	464
Contributions and redemptions by holders of redeemable units:		
Issuance of units	39,300	65,390
Reinvestment of distributions on redeemable units	11,436	9,500
Redemption of units	(108,066)	(89,387)
	(57,330)	(14,497)
Balance, end of year	$ 267,006	$ 324,313

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

TREZ CAPITAL PRIME TRUST

Consolidated Statement of Cash Flows
(Expressed in thousands of Canadian dollars)

Year ended December 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operating activities:		
Net income (loss) attributable to holders of redeemable units	$ 23	$ 464
Items not involving cash:		
Interest income, net of interest expense on syndications	(20,631)	(21,630)
Provision (recovery) for expected credit losses	(23)	23
Unrealized (gain) loss on foreign currency derivatives	(12,138)	9,585
Fair value gain on investments held at fair value	(7,996)	(3,719)
Foreign exchange gain on mortgage investments	3,435	(6,420)
Foreign exchange gain on investments held at fair value	1,882	(2,981)
Distributions to holders of redeemable units	20,443	16,703
Interest received	8,150	13,259
Changes in operating working items:		
Margin deposits	10,851	(6,600)
Other assets	227	(387)
Accounts payable and accrued liabilities	4	1,494
Management and incentive fees payable	448	-
	4,675	(209)
Investing activities:		
Funding of investments in mortgages	(191,291)	(248,562)
Repayments on investments in mortgages, including syndications	235,955	233,883
Funding of investments held at fair value	(126,799)	(41,463)
Repayments on investments held at fair value	150,687	41,453
Funding of promissory note receivable	(96)	(75)
Repayments on promissory note receivable	8,331	4,530
Change in due from related parties	(1,429)	(340)
	75,358	(10,574)
Financing activities:		
Distributions paid	(8,433)	(6,700)
Issuance of units	39,300	65,390
Redemption of units	(108,066)	(89,387)
	(77,199)	(30,697)
Increase (decrease) in cash and cash equivalents	2,834	(41,480)
Cash and cash equivalents, beginning of year	21,306	62,786
Cash and cash equivalents, end of year	$ 24,140	$ 21,306

The accompanying notes are an integral part of these consolidated 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 Trust’s Manager (the “Manager”) and Trez Capital Limited Partnership is the Trust’s mortgage broker (the “Mortgage Broker”).

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.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the Trust have been prepared in compliance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Board of Governors on April 29, 2024.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These consolidated 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 consolidated financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

2. Basis of preparation (continued):

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

In making estimates, the Manager relies on external information and observable inputs where possible, supplemented by internal analysis as required. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements are related to investment in mortgages and investments held at fair value:

(*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(i)(*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 held at fair value:

Included in the investments held at fair value are interests in limited partnerships created to enable the Trust to participate in loan sharing arrangements with US domiciled 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.

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. Material accounting policy information:

Effective January 1, 2023, the Trust adopted the amendments to IAS 1 Presentation of Financial Statements and the updated guidance under IFRS Practice Statement 2 Making Materiality Judgements. The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except where otherwise mentioned:

(a) Basis of presentation:

(i) Subsidiaries:

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

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

The Trust consolidates the following material subsidiaries:

	Province of registration	% of ownership
Trez Capital Prime Sub-Trust	British Columbia	100%

(ii) Investments held at fair value:

Investments over which the Trust does not have control or significant influence are accounted for at fair value. The Trust holds investments held at fair value primarily for the purpose of participating in loan sharing arrangements with US domiciled financial institutions.

(b) Cash and cash equivalents:

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

(c) Margin deposits:

Margin deposits relate to deposits made on foreign currency swap transactions.

(d) Promissory notes receivable:

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

3. Material accounting policy information (continued):

(e) Redeemable units:

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

(f) Distributions on redeemable units:

Distributions to Unitholders on each series of redeemable units are made on a monthly basis, in arrears. 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. Distributions on redeemable units are treated as an expense within the consolidated statement of comprehensive income, following the units' classification as liabilities. Distributions are accrued in the period to which they relate.

(g) Revenue recognition:

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

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

(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 consolidated financial statements.

(i) Financial instruments:

(*i*) Recognition, classification and measurement 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"); 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. Material accounting policy information (continued):

(i) Financial instruments (continued):

(*i*) Recognition, classification and measurement 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 FVTPL 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
Margin deposits	FVTPL
Foreign currency derivative assets	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
Management and incentive fees payable	Amortized cost
Foreign currency derivative liabilities	FVTPL
Distribution payable to holders of redeemable units	Amortized cost
Mortgage syndication liabilities	Amortized cost
Redeemable units, representing net assets attributable to holders of redeemable units	Amortized cost

3. Material accounting policy information (continued):

(i) Financial instruments (continued):

(*ii*) Impairment:

Under IFRS 9, an entity recognizes loss allowances for ECL to financial assets measured at amortized cost.

The Trust measures ECL on each reporting 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.

In assessing whether a mortgage is in default, the Trust considers both quantitative and qualitative factors. This occurs when investments in mortgages are 90-days past due on interest payment or maturity date, when the Trust assesses that there has been a deterioration of credit quality to the extent the Trust no longer has reasonable assurance as to the timely collection of the full amount of principal and interest, and/or when the Trust has commenced enforcement remedies available to it under its contractual agreements.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, 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, other relevant risk factors also need to be identified for the mortgage to move to Stage 2.

Other relevant 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: macroeconomic factors, such as interest rate forecasts.

3. Material accounting policy information (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 also required in making assumptions and estimations when calculating the ECL, including movements between the three stages and the application of forward-looking information.

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 ECL are the ECL that result from all possible default events over the expected life of a financial instrument. 12-months ECL are the portion of ECL 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 ECL 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 ECL 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: The 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. Material accounting policy information (continued):

(i) 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 ECL includes the incorporation of forecasts of future economic conditions. In determining ECL, the Trust has considered key macroeconomic variables that are relevant to each investment type. Key macroeconomic variables that drive the estimation of future cash flows include local real estate market values and conditions, as well as employment and population growth. 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 ECL. 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, when 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 when 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 derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (*i*) the consideration received (including any new asset obtained less any new liability assumed); and (*ii*) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the consolidated statement of comprehensive income.

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

(B) Financial liabilities:

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

3. Material accounting policy information (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 consolidated 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 consolidated 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.

(j) Income taxes:

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

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

3. Material accounting policy information (continued):

(j) Income taxes (continued):

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

(k) New standards adopted effective January 1, 2023:

(*i*) Definition of accounting estimates:

On February 12, 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors) to help entities to distinguish between accounting policies and accounting estimates. The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments were effective and adopted by the Trust on January 1, 2023. The amendments had no material effect on the Trust's consolidated financial statements as at and for the year ended December 31, 2023.

(*ii*) Disclosure of accounting policies:

In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures. The amendments to IAS 1 require companies to disclose their material accounting policies rather than their significant accounting policies. The amendments were effective and adopted by the Trust on January 1, 2023. The amendments had no material effect on the Trust's consolidated financial statements as at and for the year ended December 31, 2023.

(l) Standards issued but not yet effective:

As at December 31, 2023, a number of standards and amendments to standards had been issued by the IASB but are not yet effective for these consolidated financial statements. None of these standards or amendments to standards are considered relevant to the Trust's consolidated financial statements.

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

4. Investments in mortgages:

The Trust holds conventional uninsured mortgages on the following types of properties:

	2023		2022	
Property type	Number	Amount	Number	Amount
Residential	31	$ 124,230	33	$ 124,816
Industrial	5	20,217	4	29,516
Office	3	7,583	4	16,277
Hotel	-	-	1	10,252
Mixed-use	2	3,761	1	2,711
Total mortgages	41	155,791	43	183,572
Mortgage syndications		47,987		67,647
Accrued interest		1,480		1,672
Less: Provision for mortgage losses (Note 4(b))		(247)		(270)
Investments in mortgages		$ 205,011		$ 252,621

	2023		2022	
Property location	Number	Amount	Number	Amount
British Columbia	14	$ 33,728	15	$ 72,387
Arizona	5	29,035	3	16,584
Texas	9	28,803	6	29,152
Ontario	3	25,061	6	31,168
Washington	2	17,793	3	11,766
Florida	1	6,302	2	129
Alabama	1	6,174	1	5,383
Georgia	2	5,508	2	6,428
Alberta	1	1,754	4	9,840
Pennsylvania	1	1,632	1	735
Utah	2	1	-	-
Total mortgages	41	$ 155,791	43	$ 183,572

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 11.1% (2022 - 10.5%).

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

Maturity period	Number	Amount
Past due	1	$ 2,848
Past due but not credit impaired	-	-
2024	26	121,916
2025	8	21,606
2026	6	9,421
2027 and beyond	-	-
	41	$ 155,791

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

4. **Investments in mortgages (continued):**

(a) Mortgage syndication liabilities:

The Trust has entered into certain mortgage participation agreements with third-party lenders, whereby, the third-party lenders take the senior position, and the Trust retains the subordinated position, all of which is secured by first mortgage positions. As a result, the senior lenders' position is recorded as a non-recourse mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the consolidated statement of comprehensive income.

For those investments which have not met the derecognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its consolidated statement of financial position. As at December 31, 2023, the carrying value, which is equivalent to the fair value, of the transferred assets and corresponding liabilities is $47,987 (2022 - $67,647).

(b) Provision for mortgage losses:

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

	December 31, 2023			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 122,475	$ -	$ 1,754	$ 124,229
Industrial	17,370	-	2,848	20,218
Office	7,583	-	-	7,583
Mixed-use	3,761	-	-	3,761
	$ 151,189	$ -	$ 4,602	$ 155,791

	December 31, 2022			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 114,085	$ 4,966	$ 5,765	$ 124,816
Industrial	29,516	-	-	29,516
Office	16,277	-	-	16,277
Hotel	10,252	-	-	10,252
Mixed-use	2,711	-	-	2,711
	$ 172,841	$ 4,966	$ 5,765	$ 183,572

	December 31, 2023			
Provision for mortgage losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ -	$ -	$ 230	$ 230
Industrial	-	-	-	-
Office	17	-	-	17
Hotel	-	-	-	-
Mixed-use	-	-	-	-
	$ 17	$ -	$ 230	$ 247

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

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

Provision for mortgage losses	December 31, 2022 Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 35	$ -	$ 230	$ 265
Industrial	-	-	-	-
Office	5	-	-	5
Hotel	-	-	-	-
Mixed-use	-	-	-	-
	$ 40	$ -	$ 230	$ 270

The provision for mortgage losses at December 31, 2023 is $247 (2022 - $270). Stage 1 provisions of $17 (2022 - $40) represent management's estimate of the ECL on mortgages in the Trust'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. As at December 31, 2023, management estimated the ECL for these as $230 (2022 - $230).

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

	December 31, 2023 Stage 1	Stage 2	Stage 3	Total
December 31, 2022	$ 40	$ -	$ 230	$ 270
Provision for mortgage losses:				
Transfers to Stage 1(1)	-	-	-	-
Transfers to Stage 2(1)	-	-	-	-
Transfers to Stage 3(1)	-	-	-	-
Net remeasurement(2)	10	-	-	10
Mortgage advances	-	-	-	-
Mortgage repayments	(33)	-	-	(33)
Write-offs	-	-	-	-
Total movement	(23)	-	-	(23)
December 31, 2023	$ 17	$ -	$ 230	$ 247

	December 31, 2022 Stage 1	Stage 2	Stage 3	Total
December 31, 2021	$ 504	$ -	$ 230	$ 734
Provision for mortgage losses:				
Transfers to Stage 1(1)	-	-	-	-
Transfers to Stage 2(1)	-	-	-	-
Transfers to Stage 3(1)	-	-	-	-
Net remeasurement(2)	(323)	-	-	(323)
Mortgage advances	30	-	-	30
Mortgage repayments	(171)	-	-	(171)
Write-offs	-	-	-	-
Total movement	(464)	-	-	(464)
December 31, 2022	$ 40	$ -	$ 230	$ 270

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

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

(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.*

5. Investments held at fair value:

The Manager has concluded that the Trust's limited partnership investments in which it does not have control or significant influence, meet the definition of structured entities.

The table below describes the types of structured entities that the Trust does not consolidate but in which it holds an interest:

Type of structure entity	Nature and purpose	Interest held by the Trust
Limited partnerships participating in loan sharing	Limited partnerships created to enable the Trust to enter loan sharing arrangements with US domiciled financial institutions. The limited partnerships are financed by capital contributed by the Trust and entities related to the Trust in the form of limited partnership units and credit facilities with US domiciled financial institutions.	Investment in limited partnership units

The table below sets out interest held by the Trust in investments held at fair value:

December 31, 2023	Number of Limited Partnerships	Total assets	Carrying amount included in investments held at fair value
Investments in Limited Partnerships:			
Loan sharing	8	$ 1,729,887	$ 79,270

December 31, 2022	Number of Limited Partnerships	Total assets	Carrying amount included in investments held at fair value
Investments in Limited Partnerships:			
Loan sharing	8	$ 1,259,667	$ 104,666

During the year ended December 31, 2023, a change in fair value of $6,114 was recorded (2022 - $6,699). Included within the change in fair value is realized net interest income of $7,138 (2022 - $3,547) and unrealized net interest income of $858 (2022 - $171). This was partially offset by a foreign exchange loss of $1,882 (2022 – gain of $2,981).

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

5. Investments held at fair value (continued):

In the event a mortgage investment held by a structured entity enters default, the Trust may have the obligation to repay the third-party loan sharing partner. As at December 31, 2023, the total amount of third-party loan sharing that the Trust is committed to repay in event of default was nil (2022 - $149,506).

6. Promissory notes receivable:

	2023	2022
Unsecured, interest free, promissory note due on demand from a private affiliated entity [(a)]	$ 4,997	$ 4,901
Less provision for expected credit losses [(a)]	(488)	(488)
USD secured, interest at 9% per annum effective January 1, 2022, promissory note due on demand from a private affiliated entity [(b)]	-	8,353
	$ 4,509	$ 12,766

(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. As at December 31, 2023, management estimated the ECL on the note receivable as $488 (2022 - $488). During the year ended December 31, 2023, provisions for expected credit loss of nil (2022 - $488) were recognized.

(b) During the year ended December 31, 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. This promissory note was paid out during the year ended December 31, 2023.

7. Foreign currency derivatives and margin deposits:

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange as the Trust has entered into foreign exchange contracts to manage most of its foreign exchange exposure. As at December 31, 2023, the Trust was participating in forward exchange contracts to sell US dollars totalling $138,700 (2022 - $140,719). The foreign currency derivatives are marked-to-market on the consolidated statement of financial position. As at December 31, 2023, the fair value of assets is $3,377 (2022 - $ nil) and the fair value of liabilities is $534 (2022 - $9,294). The foreign currency derivatives are entered directly by the Trust with third party financial institutions.

As at December 31, 2023, the margin deposit on foreign exchange contracts, which is considered a restricted cash balance, totalled $1,050 (2022 - $11,900).

8. Credit facility:

On November 23, 2022, the Trust entered into a revolving borrowing base credit facility with a Chartered bank located in the Canada for available proceeds up to $45,000, bearing interest at the lender prime plus 1.25% for demand borrowing and CDOR plus 2.25% for term borrowing. The credit facility is due on demand. The interest rate for term borrowing will transition from CDOR plus 2.25% to CORRA plus 0.30% in 2024.

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

8. Credit facility (continued):

The credit facility has financial tests and other covenants with which the Trust must comply. The Trust shall (a) maintain an interest coverage ratio greater than 3.0 to 1.0; (b) maintain a total debt to tangible net worth ratio less than 0.4 to 1.0; (c) maintain a minimum tangible net worth of $175,000; and (d) maintain a minimum mortgage payout coverage ratio greater than 2.0 to 1.0. As at December 31, 2023 and 2022, the Trust was in compliance with all of the applicable covenants of the credit facility.

As at December 31, 2023, there was nil drawn down on the credit facility (2022 - nil).

9. Distribution payable to holders of redeemable units:

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

Total distributions for each Unitholder are determined relative to the proportion of the year that the Unitholder was invested in the Trust. Distributions allocable to each series of Units will differ as a result of the deduction of the amounts payable in respect of trailer fees, as defined in the Declaration of Trust, for the Series A Units and the lower administration fee payable in respect of Series I Units.

The total distribution to the made in respect of the December 31 year-end will at least equal 100% of the Trust's taxable income including gains and losses for tax purposes relating to fluctuations of the US dollar relative to the Canadian dollar, as explained in Note 12.

For the year ended December 31, 2023, the taxable income of the Trust was $20,815 (2022 - $17,149) and cash distributions were $20,443 (2022 - $16,703).

In accordance with its trust indenture, the Trust distributed an amount equal to taxable income. The difference of $372 (2022 - $446) between cash distribution and taxable income is considered a notional distribution for tax purposes (2022 - notional distribution for tax purposes) that is distributed via the issuance of units which are consolidated immediately thereafter.

For the year ended December 31, 2023, $11,436 (2022 - $9,500) of the declared distributions were reinvested.

As at December 31, 2023, the monthly distribution payable to be distributed to the unitholders is as follows:

	2023	2022
Cash paid out subsequent to the year	$ 1,555	$ 981

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

As at December 31, 2023, the Trust has authorized an unlimited number of Series A units, Series F units and Series I units (collectively, the "Units").

The holders of the Units are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder upon 30 days' notice in increments of not less than $5. If notice is received by the Manager, the redemption will occur within thirty days subsequent to the receipt of the redemption notice. Redemptions may be subject to a 1.0% discount if units are redeemed prior to their one-year anniversaries.

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

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

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

	2023		2022	
Series A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	1,362	$ 13,613	1,943	$ 19,401
Increase (decrease) in net assets	-	1	-	19
Issued for cash	71	705	156	1,561
Issued for reinvested distributions	36	359	26	255
Issued for top up	5	49	1	14
Redeemed for cash	(294)	(2,940)	(721)	(7,206)
Transfer between classes	(19)	(185)	(43)	(431)
Issued and outstanding, end of year	1,161	11,602	1,362	13,613
Cumulative IFRS 9 Stage 1 provisions	-	1	-	2
	1,161	$ 11,603	1,362	$ 13,615

	2023		2022	
Series F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	19,398	$ 193,990	20,570	$ 205,435
Increase (decrease) in net assets	-	14	-	278
Issued for cash	3,848	38,478	5,408	54,081
Issued for reinvested distributions	620	6,200	505	5,052
Issued for top up	61	606	19	190
Redeemed for cash	(7,012)	(70,118)	(6,640)	(66,402)
Transfer between classes	19	185	(464)	(4,644)
Issued and outstanding, end of year	16,934	169,355	19,398	193,990
Cumulative IFRS 9 Stage 1 provisions	-	11	-	24
	16,934	$ 169,366	19,398	$ 194,014

	2023		2022	
Series I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	11,675	$ 116,710	11,372	$ 113,510
Increase (decrease) in net assets	-	8	-	167
Issued for cash	12	117	975	9,748
Issued for reinvested distributions	380	3,805	385	3,847
Issued for top up	42	417	14	142
Redeemed for cash	(3,501)	(35,008)	(1,578)	(15,779)
Transfer between classes	-	-	507	5,075
Issued and outstanding, end of year	8,608	86,049	11,675	116,710
Cumulative IFRS 9 Stage 1 provisions	-	5	-	15
	8,608	$ 86,054	11,675	$ 116,725

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

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

	2023			2022		
Total	Number		Amount	Number		Amount
Issued and outstanding, beginning of year	32,435	$	324,313	33,885	$	338,346
Increase (decrease) in net assets	-		23	-		464
Issued for cash	3,931		39,300	6,539		65,390
Issued for reinvested distributions	1,036		10,364	916		9,154
Issued for top up	108		1,072	34		346
Redeemed for cash	(10,807)		(108,066)	(8,939)		(89,387)
Issued and outstanding, end of year	26,703		267,006	32,435		324,313
Cumulative IFRS 9 Stage 1 provisions	-		17	-		41
	26,703	$	267,023	32,435	$	324,354

11. Related party transactions and balances:

Related party transactions that are not disclosed elsewhere in these consolidated 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 a bare trust (the "Trustee") on behalf of the beneficial owners of the mortgages.
- In addition, certain duties are performed by the Mortgage Broker. The Mortgage Broker is related to the Manager and the Trust through common control. In cases where mortgages are held on a participation basis:
  - The Trust's rights are as outlined in the 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.

(a) Management and incentive fees:

The Trust is managed by the Manager pursuant to the terms and conditions of the Declaration of Trust, a summary of which is set out in the most current Offering Memorandum. The Manager may, pursuant to the terms of the Declaration of Trust, delegate its power to third parties where it deems advisable.

11. Related party transactions and balances (continued):

(a) Management and incentive fees (continued):

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 monthly. For Class A Units and Class F Units this is equal to 1.50% of the proportionate share of the average gross assets of the Trust plus applicable taxes. For Class I Units this is equal to a percentage, to be negotiated between the Manager and the Unitholder, of the proportionate share of the average gross assets of the Trust plus applicable taxes. The average gross assets of the Trust are calculated using a simple moving average of the month end value of all assets, excluding mortgage syndications, of the Trust. For each class of units of the Trust, the Manager also receives an additional fee (the "Incentive Fee") equal to 10% of net earnings and capital gains but prior to the deduction for the Incentive Fee, payable annually.

During the year ended December 31, 2023, the Trust incurred Management Fees of $5,428 (2022 - $5,652) and Incentive Fees before waivers of $2,407 (2022 - $2,019) payable to the Manager. For the year ended December 31, 2023, the Manager has agreed to waive Incentive Fees in the amount of nil (2022 - $147). Any fees waived are no longer collectible in the current or future years.

As at December 31, 2023, current year Management Fee and Incentive Fee of $2,803 (2022 - $2,355) remained outstanding.

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.

(b) Transfer of investments in mortgages:

The Trust generally invests in an interest in a mortgage at the time the mortgage is funded. However, at any time during the term of the mortgage, it may acquire an interest from or sell its interest in a mortgage to 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 is equivalent to the estimated fair values of the related mortgages.

During the year ended December 31, 2023, the Trust purchased investments in mortgages of $46,699 (2022 - $61,314) from, and sold investments in mortgages of $21,213 (2022 - $35,791) to entities under common management.

(c) Co-investments in mortgages and investments held at fair value:

The Trust has invested in a mortgage portfolio with a balance at December 31, 2023 of $205,011 (2022 - $252,621), 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, 2023 was $79,270 (2022 - $104,666), virtually all of which is made on a participation basis with related parties.

11. Related party transactions and balances (continued):

(d) Amounts due from related parties:

Amounts due from related parties as at December 31, 2023 were $2,010 (2022 - $582). The balance related to amounts owed from a mortgage repayment to a bank account of the Manager was $824 (2022 - nil) and amounts receivable for invoices paid on behalf of a related parties of $1,186 (2022 - $582).

(e) Guarantees provided and mortgages or properties acquired by entities related to the Manager:

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. The promissory note was paid out during the year ended December 31, 2023.

12. Income taxes:

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

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 consolidated financial statements.

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 US 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 US dollar relative to Canadian dollar.

Any taxable income realized by the Trust for a particular taxation year will be paid or 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 2023 fiscal period.

13. Fair value measurements:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale.

The 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 thousands of Canadian dollars, unless otherwise indicated)

13. Fair value measurements (continued):

December 31, 2023	Carrying value Amortized cost	Carrying value FVTPL	Fair value
Financial assets not measured at fair value:			
Cash and cash equivalents	$ 24,140	$ -	$ 24.140
Due from related parties	2,010	-	2,010
Investments in mortgages	205,011	-	205,011
Promissory notes receivable	4,509	-	4,509
Financial liabilities not measured at fair value:			
Accounts payable and accrued liabilities	127	-	127
Management and incentive fees payable	2,803	-	2,803
Distribution payable to holders of redeemable units	1,555	-	1,555
Mortgage syndication liabilities	47,987	-	47,987
Net assets attributable to holders of redeemable units	267,006	-	267,006
Financial assets measured at fair value:			
Margin deposits (Level 2)	-	1,050	1,050
Foreign currency derivative assets (Level 2)	-	3,377	3,377
Investments held at fair value (Level 3)	-	79,270	79,270
Financial Liabilities measured at fair value:			
Foreign currency derivative liabilities (Level 2)	-	534	534

December 31, 2022	Carrying value Amortized Cost	Carrying value FVTPL	Fair value
Financial assets not measured at fair value:			
Cash and cash equivalents	$ 21,306	$ -	$ 21,306
Due from related parties	582	-	582
Investments in mortgages	252,621	-	252,621
Promissory notes receivable	12,766	-	12,766
Other assets	60	-	60
Financial liabilities not measured at fair value:			
Accounts payable and accrued liabilities	123	-	123
Management and incentive fees payable	2,355	-	2,355
Distribution payable to holders of redeemable units	981	-	981
Mortgage syndication liabilities	67,647	-	67,647
Net assets attributable to holders of redeemable units	324,313	-	324,313
Financial assets measured at fair value:			
Margin deposits (Level 2)	-	11,900	11,900
Investments held at fair value (Level 3)	-	104,666	104,666
Financial liabilities measured at fair value:			
Foreign currency derivative liabilities (Level 2)	-	9,294	9,294

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2023 and 2022.

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

13. Fair value measurements (continued):

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

(a) 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 investments in mortgages 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 investment in mortgages and mortgage syndication liabilities is based on Level 3 inputs.

(b) 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.

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 are 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.

As at December 31, 2023, a 0.25% increase in the discount rate used in the discounted cash flow would decrease the fair value by $170 (2022 – $585) and a 0.25% decrease in the discount rate would increase the fair value by $170 (2022 – $589).

A reconciliation of Level 3 investments held at fair value at December 31, 2023 is as follows:

Investments held at fair value, December 31, 2021	$	21,006
Additions to investments		118,413
Realized change in fair value		3,547
Unrealized change in fair value		171
Unrealized foreign exchange		2,981
Distributions paid		(41,453)
Investments held at fair value, December 31, 2022	$	104,666

Investments held at fair value, December 31, 2022	$	104,666
Additions to investments		126,799
Realized change in fair value		7,138
Unrealized change in fair value		858
Unrealized foreign exchange		(1,882)
Distributions paid		(158,309)
Investments held at fair value, December 31, 2023	$	79,270

13. Fair value measurements (continued):

(b) Investments held at fair value (continued):

The key valuation techniques used in measuring the fair values investments held at fair value 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

(c) 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.

(d) Other financial assets and liabilities:

The carrying values of financial assets and liabilities not measured at fair values, such as cash and cash equivalents, margin deposits, due from related parties, promissory notes receivable, interest receivable, accounts payable and accrued liabilities, management and incentive fees payable and distributions payable to holders of redeemable units approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

(e) Net assets attributable to 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 consolidated 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.

14. Financial instruments and risk management:

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.

14. Financial instruments and risk management (continued):

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:

(a) 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 and cash. For risk management reporting purposes, the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk).

The Trust mitigates the risk of credit loss by ensuring that its mix of mortgages is diversified, and by limiting its exposure to any specific borrower or sector. Furthermore, the Trust manages its credit risk through extensive initial due diligence and careful monitoring of its mortgage portfolio, active communications with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages by its Mortgage Broker, and by matching the cash flow profile of the assets and liabilities.

All mortgage investments are approved by the Credit Committee comprised of senior management of the Mortgage Broker. The Mortgage Broker’s Credit Committee reviews its policies regarding its lending limits on an ongoing basis. Minimal credit risk also arises from cash deposits. This is mitigated by holding deposits in Canada with major financial institutions.

The Trust’s maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2023 and 2022 is represented by the respective carrying amounts of the relevant financial assets in the consolidated statement of financial position.

(b) Liquidity risk:

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

The Trust's liquidity requirements relate to its obligations under its loans payable, accounts payable and accrued liabilities, mortgage syndication liabilities, distributions payable to holders of redeemable units, redeemable units, loans payable and its obligations to make future advances under its existing mortgage portfolio. Liquidity risk is managed by ensuring that the sum of: (*i*) availability under the Trust's bank borrowing line; (*ii*) the sourcing of other borrowing facilities; and (*iii*) projected repayments under the existing mortgage portfolio and investments held at fair value exceeds projected needs (including funding of further advances under existing and new mortgage investments).

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

Unitholders of the Trust have the limited right to redeem their units in the Trust, as described in its Offering Memorandum and paragraph 8.15 of the Trust’s Declaration of Trust. The Manager is entitled to extend the time for payment of any unitholder redemption for a maximum period of 180 days during any period in which the Manager determines that conditions exist which render the sale of assets of the Trust to be impractical or impair the ability of the Manager to determine the net asset value of the Trust.

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

14. Financial instruments and risk management (continued):

(b) Liquidity risk (continued):

The following table shows the contractual timing of cashflows:

December 31, 2023	Carrying value	Contractual cash flow	Within a year	Following year	3 - 5 years	5+
Accounts payable and accrued liabilities	$ 127	$ 127	$ 127	$ -	$ -	$ -
Distributions payable	1,555	1,555	1,555	-	-	-
Due to Manager	2,803	2,803	2,803	-	-	-
Total contractual liabilities, excluding mortgage syndication liabilities	$ 4,485	$ 4,485	$ 4,485	$ -	$ -	$ -

1. As at December 31, 2023, there was nil drawn down on the credit facility (Note 8).
2. The principal repayments of mortgage syndication liabilities by contractual maturity date are shown net with investments in mortgages in Note 4.

As at December 31, 2023, the Trust had a cash and cash equivalents position of $24,140 (2022 - $21,306) and an unutilized credit facility of $45,000 (2022 - $45,000). The Manager believes the Trust will be able to finance its operations using the cash flow generated from operating activities, investing activities and credit facilities.

(c) 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 monthly 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.

(*i*) 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. As described in Note 10, units are retractable by Unitholders upon 30-days' notice. A significant rise in interest rates may cause Unitholders to retract their Units and could cause a shortfall in funds available to meet such redemptions. The Trust manages interest rate risk by generally investing in short-term variable rate mortgages with floor rates which are greater than the rate charged by its lenders. The Trust also charges a 1% penalty on redemptions made prior to units' first year anniversary.

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

14. Financial instruments and risk management (continued):

(c) Market risk (continued):

(i) Interest rate risk (continued):

As at December 31, 2023, a 0.25% increase/decrease in interest rates with all other variables held constant would increase/decrease the Trust's income by approximately $212 (2022 - $283) arising from income generated on the Trust's cash deposits and higher interest income generated on variable rate mortgage investments after deducting increased or decreased interest expenses from the Trust's borrowing facilities.

(ii) Currency risk:

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

The Trust has put in place steps to mitigate the 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, 2023, the Trust was participating in forward exchange contracts to sell US dollars totalling $138,700 (2022 - $140,719).

The foreign currency derivatives are marked-to-market on the consolidated statement of financial position. As at December 31, 2023, the fair value of assets is $3,377 (2022 - nil) and the fair value of liabilities is $534 (2022 - $9,294). The foreign currency derivatives are entered directly by the Trust with third party financial institutions.

The table below indicates the foreign currency to which the Trust had over hedged exposure at December 31, 2023 and 2022. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened by 5% in relation to the other currency, with all other variables held constant.

Increase (decrease) in Canadian dollars:

		2023
Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 449	$ 21
% of net assets attributable to redeemable units	0.17%	0.01%

		2022
Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 347	$ 17
% of net assets attributable to redeemable units	0.11%	0.01%

14. Financial instruments and risk management (continued):

(c) Market risk (continued):

(*iii*) 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 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 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.

15. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which as at December 31, 2023 is $267,006 (2022 - $324,313).

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

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

The Trust is not subject to externally imposed capital requirements other than those described in Note 8 has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Trust agreement.

16. Commitments and contingencies:

In the ordinary course of business activities, the Trust may be contingently liable for litigation and claims arising from investing in mortgage investments and other investments. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Trust's consolidated financial position. The Trust's estimate involves significant judgement, given the fact that the Trust's liability, if any, has yet to be determined and as such could vary by a material amount in the future should this change.