Consolidated Financial Statements
(Expressed in United States dollars)

TREZ CAPITAL YIELD TRUST US

Year ended December 31, 2018

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Directors of Trez Capital Yield Trust US

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

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of net income (loss) 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 financial statements, including a summary of significant accounting policies.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

- 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
March 29, 2019

TREZ CAPITAL YIELD TRUST US

Consolidated Statement of Financial Position
(Expressed in United States dollars)

December 31, 2018 with comparative information for 2017

	Notes	2018	2017
Assets			
Cash and cash equivalents		$ 14,830,562	$ 1,700,673
Restricted cash		159,066	1,524,750
Due from related party		1,383	-
Investment in joint ventures	5	-	1,991,393
Investment held at fair value	6	6,131,385	6,790,354
Foreign currency derivatives		-	38,227
Investments in mortgages	4	120,371,507	90,471,916
Promissory notes receivable	8	728,932	820,364
Other assets		128,271	220,747
		$ 142,351,106	$ 103,558,424
Equity			
Non-controlling interests	10(e)	$ 1,699,193	$ -
Liabilities and Net Assets Attributable to Holders of Redeemable Units			
Bank indebtedness	11	$ 22,401,845	$ 1,666,539
Accounts payable and accrued liabilities		292,469	736,128
Due to related party	10(c)	5,862	-
Mortgage syndication liabilities	4(a)	5,973,340	9,825,958
Management and incentive fees payable	10(a)	1,416,154	1,129,280
Distributions payable to holders of redeemable units	7(b)	1,655,573	760,781
		31,745,243	14,118,686
Redeemable units, representing net assets attributable to holders of redeemable units	7	108,906,670	89,439,738
		$ 140,651,913	$ 103,558,424
Total liabilities and net assets attributable to holders of redeemable units and equity		$ 142,351,106	$ 103,558,424
Redeemable units, representing net assets attributable to holders of redeemable units:	7		
USD Series A		$ 10,189,416	$ 8,784,498
USD Series F		96,391,247	80,655,240
USD Series I		2,326,007	-
		$ 108,906,670	$ 89,439,738

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:

"Alexander Manson"

(Signed) Alexander Manson
Director

"Ken Lai"

(Signed) Ken Lai
Director

TREZ CAPITAL YIELD TRUST US

Consolidated Statement of Comprehensive Income (Loss)
(Expressed in United States dollars)

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

	Notes	2018	2017
Revenue:			
Interest income		$ 10,192,507	$ 9,306,580
Other income		292,130	190,815
Interest expense on mortgage syndication liabilities		(359,775)	(233,045)
		10,124,862	9,264,350
Expenses:			
Commissions		282,909	285,779
Management and incentive fees	10(a)	2,589,854	2,148,564
General and administrative		678,209	844,278
Provision for mortgage losses	4 (c)	3,740	-
		3,554,712	3,278,621
Equity earnings from investment in joint ventures	5	127,832	382,920
Fair value gains on embedded derivatives		-	245,966
Realized fair value gains on investments held at fair value	6	1,132,708	-
Unrealized fair value gains on investments held at fair value	6	930,316	40,354
Income from operations		8,761,006	6,654,969
Financing costs:			
Interest expense		178,328	166,778
Distributions to holders of redeemable units	7(b)	15,504,293	6,488,191
		15,682,621	6,654,969
Net income (loss) and comprehensive income (loss)		$ (6,921,615)	$ -
Attributable to:			
Holders of redeemable units		$ (6,975,726)	$ -
Non-controlling interests		54,111	-
		$ (6,921,615)	$ -

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

TREZ CAPITAL YIELD TRUST US

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

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

	2018	2017
Balance, beginning of the year	$ 89,439,738	$ 201,098,478
Impact of adopting IFRS 9 (note 14)	(246,247)	-
Net income (loss) attributable to holders of redeemable units	(6,975,726)	-
Contributions and redemptions:		
Issuance of units	32,907,788	16,687,452
Reinvestment of distributions on redeemable units	4,480,209	3,636,008
Redemptions	(10,699,092)	(19,224,626)
Transfer of units as part of reorganization	-	(112,757,574)
	19,713,179	(111,658,740)
Balance, end of year	$ 108,906,670	$ 89,439,738

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

TREZ CAPITAL YIELD TRUST US

Consolidated Statement of Cash Flows
(Expressed in United States dollars)

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (6,921,615)	$ -
Items not involving cash:		
Interest income earned	(9,832,732)	(9,073,536)
Equity earnings from investments in joint ventures	(127,832)	(382,920)
Realized fair value gains on investments held at fair value	(1,200,704)	(40,354)
Unrealized fair value gains on investments held at fair value	(930,316)	-
Fair value gains on embedded derivatives	-	245,966
Distributions to holders of redeemable units	15,504,293	6,488,191
Unrealized gain on forward currency derivatives	38,227	(21,595)
Promissory note receivable	91,432	-
Interest received	2,619,413	2,066,096
Changes in non-cash operating working items:		
Restricted cash	1,365,684	(582,843)
Other assets	92,476	780,032
Management and incentive fees payable	286,874	482,913
Accounts payable and accrued liabilities	(443,659)	233,249
	541,541	195,199
Investing activities:		
Funding of investments in mortgages	(111,032,009)	(82,661,274)
Repayments on investments in mortgages	83,049,128	92,729,047
Transfer of cash from reorganization	-	(4,273,464)
Net distributions (contributions) from investment in joint ventures	2,119,225	2,211,788
Contributions to investments held at fair value	3,987,733	(6,750,000)
Contributions (distributions) to non-controlling interests	1,645,082	-
	(20,230,841)	1,256,097
Financing activities:		
Distributions paid on redeemable units	(10,129,292)	(3,670,541)
Repayments on loans payable	-	-
Issuance of units	32,907,788	16,687,452
Redemption of units	(10,699,092)	(19,224,626)
Increase (Decrease) in bank indebtedness	20,735,306	(413,804)
Increase in due to related parties	4,479	-
	32,819,189	(6,621,519)
Increase (decrease) in cash and cash equivalents	13,129,889	(5,170,223)
Cash and cash equivalents, beginning of year	1,700,673	6,870,896
Cash and cash equivalents, end of year	$ 14,830,562	$ 1,700,673

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

1. Nature of business:

Trez Capital Yield Trust US (the “Trust”) is an unincorporated trust established under the laws of British Columbia pursuant to a Declaration of Trust dated January 10, 2013, and amended various times with latest amendment dated December 9, 2016 (the “Declaration of Trust”).

Trez Capital Fund Management Limited Partnership is the Trust’s 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 mortgages related to any and all types of real property and from limited equity profit sharing arrangements through limited partnerships within the United States (“U.S.”)

On December 9, 2016, the Unitholders approved a reorganization of the Trust to restructure the Trust and its assets and liabilities such that holders of Units denominated in Canadian dollars would hold their interests in the Trust’s net assets through a newly established Trust known as the Trez Capital Yield Trust US (Canadian $) (the “CAD Trust”), while holders of Units denominated in US dollars would continue to hold their interests in the Trust's net assets through the Trust (the “Reorganization”).

On January 1, 2017 pursuant to the Reorganization, the three series of Canadian dollar denominated units of the Trust, being the Series A (C$) Units, Series F (C$) Units and Series I (C$) Units (collectively, the “CAD Units”) were redeemed and exchanged for Units of a corresponding series of the CAD Trust. Accordingly, the prior holders of Canadian dollar denominated Units now hold units of the CAD Trust and the holders of the US dollar denominated units of the US Trust continue to hold such units in the Trust. A proportionate interest of 56.36% of the Trust’s total assets and liabilities were transferred to the CAD Trust as part of the Reorganization.

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

2. Basis of preparation:

(a) Statement of compliance:

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

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

2. Basis of preparation (continued):

(b) Basis of measurement:

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

(c) Functional and presentation currency:

These consolidated financial statements are presented in U.S. 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.

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. In making estimates, the Manager relies on external information and observable inputs where possible supplemented by internal analysis as required. Estimates and judgments related to allowance for credit losses for investments in mortgages have been revised following adoption of IFRS 9 Financial Instruments (“IFRS 9”), effective January 1, 2018 as follows:

(*i*) Investments in mortgages:

The Trust is required to make an assessment of the impairment of investments in mortgages. Under the old standard (IAS 39 *Financial Instruments: Recognition and Measurement (“IAS 39”)*) prior to January 1, 2018, investments in mortgages were considered to be impaired only if objective evidence indicated that one or more events (“loss events”) had occurred after its initial recognition, that would have a negative effect on the estimated future cash flows of that asset. IFRS 9 replaces the ‘incurred loss’ model in IAS 39 as of January 1, 2018 with a forward looking ‘expected credit loss’ (ECL) model which is applied to investments in mortgages that are classified as amortized cost. The new expected credit loss model is further explained in note 3(h)(*iii*). The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary by a material amount.

2. Basis of preparation (continued):

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

(*ii*) Investments at fair value:

Included in the investments at fair value are investment interests in Special Purpose Entities. These allow the Trust to participate in loan sharing arrangements with third party US based financial institutions. The Trust estimates the value of these investments based on expected future interest income at a stipulated rate. Should the underlying assumptions around interest rates change, the estimated future cash flows and income could vary affecting fair value.

3. Significant accounting policies:

(a) Basis of presentation:

(*i*) Subsidiaries:

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

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

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

The Trust owns and consolidates the following material subsidiaries:

	Province of incorporation	Percentage of ownership
Trez Forman Floridian	British Columbia	80%

The principal business activity of the subsidiary is investment in mortgages.

3. Significant accounting policies (continued):

(a) Basis of presentation:

(*ii*) Investments in jointly controlled entities:

The Trust has interests in a number of development joint ventures, which are accounted for using the equity method. The Trust has interests in a number of development investments, which are accounted for at fair value.

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

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

(b) Cash and cash equivalents:

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

(c) Restricted cash:

Restricted cash relates to margin deposits made on foreign currency swap transactions and cash held by a related party.

(d) Promissory notes receivable:

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

(e) Redeemable units:

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

(f) Revenue recognition:

Interest income is recognized in the consolidated statement of net income (loss) in the period in which it is earned on an effective interest rate basis. Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. Significant accounting policies (continued):

(g) Distributions on redeemable units:

Distributions to Unitholders on each series of redeemable units are made on a quarterly 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 (loss), following the units' classification as liabilities. Distributions are accrued in the period to which they relate.

(h) Financial instruments:

(*i*) Change in accounting policy:

Effective January 1, 2018, the Trust adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities. It also replaces the IAS 39 "incurred loss" model with an "expected credit loss" (ECL) model. The Trust has recognized adjustments to opening net assets attributable to holders of redeemable units as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening net assets attributable to holders of redeemable units is a decrease of $242,507. Refer to note 11 for further details with respect to the impact to the opening statement of financial position at January 1, 2018.

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

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

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

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

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

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

(*iii*) Impairment:

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*iii*) Impairment (continued):

The Trust measures expected credit losses 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.

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 other relevant risk factors also needs 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: macro-economic factors, such as interest rate forecasts.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(iii) Impairment (continued):

Impaired financial assets (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 allowance for credit losses, including movements between the three stages and the application of forward looking information.

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

In assessing information about possible future economic conditions, the Trust utilized multiple economic scenarios including the base case, which represents the most probable outcome and is consistent with the Trust’s view of the portfolio. The calculation of expected credit losses includes the incorporation of forecasts of future economic conditions. In determining expected credit losses, the Trust has considered key macroeconomic variables that are relevant to each investment type. Key economic variables include GDP and interest rate forecasts. The estimation of future cash flows also includes assumptions about local real estate market values and conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*iii*) Impairment (continued):

Impaired financial assets (continued):

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

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

Financial assets:

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

The Trust may enter into transactions whereby it transfers mortgage or loan investments recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred mortgage or loan investments or a portion of them.

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.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

Financial assets (continued):

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

Financial liabilities:

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

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

(*i*) Recognition and classification:

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

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

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

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

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

3. Significant accounting policies (continued):

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

(*iii*) Impairment:

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

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

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

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

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

3. Significant accounting policies (continued):

(j) Other changes in accounting policies:

(*i*) Revenue recognition:

The IASB issued IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”) in May 2014. The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective from January 1, 2018; it did not have a material effect on the Trust’s financial statements, as all revenues were accounted for under other standards, primarily IFRS 9.

(k) Future changes in accounting policies:

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

(l) Comparative information:

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

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

4. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

	2018		2017	
Property type	Number	Amount	Number	Amount
Residential	57	$ 109,422,379	54	$ 78,651,611
Office	1	2,808,802	-	-
Retail	2	1,355,688	1	1,057,450
	60	113,586,869	55	79,709,061
Mortgage syndications		5,973,340		9,825,958
Accrued interest		1,057,545		936,897
Less: Provision for mortgage losses (note 4 (c))		246,247		-
Investment in mortgages		$ 120,371,507		$ 90,471,916

	2018		2017	
Property location	Number	Amount	Number	Amount
Texas	42	$ 80,604,368	45	$ 70,439,388
Florida	9	26,550,459	2	387,616
Louisiana	1	2,500,000	-	-
Washington	2	1,050,531	-	-
North Carolina	2	934,490	1	550,130
Tennessee	1	888,588	1	1,139,286
Arizona	1	848,210	1	408,175
Colorado	1	183,637	4	5,999,595
Georgia	1	26,586	1	784,871
Total mortgages	60	$ 113,586,869	55	$ 79,709,061

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

	2018	2017
Investments in mortgages, beginning of year	$ 90,471,916	$ 201,031,435
IFRS 9 transition adjustment – reclassification of profit participation loans (note 14)	(1,265,740)	-
IFRS 9 transition adjustment – ECL (note 4 (c))	242,507	-
Provision for mortgage investment (loss), net of recoveries (note 4 (c))	3,740	-
Transfer of mortgages as part of Reorganization	-	(113,157,152)
Funding of investments in mortgages	111,032,009	82,661,274
Interest capitalized to investments in mortgages	7,092,671	7,077,569
Principal repayments of investments in mortgages	(83,049,128)	(92,729,047)
Increase (decrease) in syndicated loans	(3,852,618)	6,724,295
Increase (decrease) in fair value of embedded derivatives	-	(245,966)
Transfer to unsecured note receivable (note 4(b))	-	(820,364)
Change in accrued interest	120,648	(70,128)
Accretion Income	67,996	-
Investments in mortgages, end of year	$ 120,371,507	$ 90,471,916

4. Investments in mortgages (continued):

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 11.80% (2017 - 11.65%).

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.

(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 net income (loss). The Trust also retains an option, not the obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders' share together with accrued interest.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its consolidated statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is $ 5,973,340 (2017 - $9,825,958).

(b) Mortgages in default:

As at December 31, 2018, the Trust had no mortgages that were past due (2017 - none).

During 2017, an affiliated company to the Trust foreclosed on the property that was in default in the previous year. The foreclosure occurred due to the borrower's missed mandatory principal payment and their failure to cure that default. The Property consists of 66 Lots that are complete and ready to have homes built on them. The Trust now holds an unsecured interest-free note from the affiliated Company in the amount $728,932 (2017 - $820,364) (note 8).

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

4. Investments in mortgages (continued):

(c) Provision for mortgage investment loss:

Provision for mortgage losses

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

	December 31, 2018			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 105,919,401	$ 3,502,978	$ -	$ 109,422,379
Office	2,808,802	-	-	2,808,802
Retail	1,355,688	-	-	1,355,688
	$ 110,083,891	$ 3,502,978	$ -	$ 113,586,869

	December 31, 2018			
Provision for mortgage losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 244,548	$ -	$ -	$ 244,548
Retail	1,699	-	-	1,699
	$ 246,247	$ -	$	$ 246,247

The provision for mortgage losses at December 31, 2018 is $246,247. This provision represents management's estimate of the ECLs on mortgages in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and 3. Management estimated the ECL for these as $nil, primarily due to the mortgage collateral held on the mortgages.

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

4. Investments in mortgages (continued):

(c) Provision for mortgage losses (continued):

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

	December 31, 2018			
IFRS 9	Stage 1	Stage 2	Stage 3	Total
IAS 39 balance, December 31, 2017	$ -	$ -	$ -	$ -
IFRS 9 Transition adjustment (note 3(e))	242,507	-	-	242,507
Provision for mortgage losses:				
Transfers to (from) Stage 1 [1]	-	-	-	-
Transfers to (from) Stage 2 [1]	-	-	-	-
Transfers to (from) Stage 3 [1]	-	-	-	-
Net remeasurement [2]	2,466	-	-	2,466
Mortgage advances	13,320	-	-	13,320
Mortgage repayments	(12,046)	-	-	(12,046)
Write-offs	-	-	-	-
	$ 246,247	$ -	$ -	$ 246,247

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

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

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

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

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

4. Investments in mortgages (continued):

(d) Profit participation mortgages:

Included in the investments in mortgages are certain profit participation mortgages which, in addition to interest at a stipulated rate, provide the Trust with an entitlement to future profits from the projects as set in the terms of the mortgage agreement. The profit participation features are considered embedded derivatives and are recognized at fair value with changes in fair value reported in the consolidated statement of net income (loss). The fair value of the embedded derivatives at December 31, 2018 is nil (2017 - $1,265,740).

	2018	2017
Balance, beginning of year	$ 1,265,740	$ 3,587,312
Transfer as part of Reorganization, included in investments in mortgages	-	(2,021,631)
Change in fair value	-	(299,941)
IFRS 9 Transition adjustment (note 14)	(1,265,740)	-
Balance, end of year	$ -	$ 1,265,740

(e) Land development mortgages:

Included in investments in mortgages at December 31, 2018 was one (2017 - one) secured financing arrangements in the aggregate amount of $2,558,510 (2017 - $3,297,459) to provide financing to land development projects in Texas. The Trust has been assigned title to land lots under the financing arrangement, and the borrower has the option to re-acquire these land lots, based on a fixed pricing schedule.

(f) Schedule of maturity of investments in mortgages:

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

Maturity period	Number	Amount
2019	24	$ 24,842,074
2020	22	38,151,874
2021	12	48,441,377
2022 and beyond	2	2,151,544
	60	$ 113,586,869

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

5. Investments in joint ventures:

	Equity investment December 31, 2017	Net contributions (distributions)	Share of earnings	Equity investment December 31, 2018
TC/M Oak Creek Trust (a)	$ 770,185	$ (789,946)	$ 19,761	$ -
TC/LT Conroe Trust (b)	1,221,208	(1,329,279)	108,071	-
Total	$ 1,991,393	$ (2,119,225)	$ 127,832	$ -

(a) Land development mortgages:

As described in note 4(d), included in investments in mortgages as at December 31, 2016 were secured financing arrangements to provide financing to land development projects in Texas. As a result of the Reorganization, the US Trust no longer consolidates these financing arrangements and the Trust and the CAD Trust are now considered to have joint control over this entity and equity accounting is now applied. The joint venture has been assigned title to land lots under the financing arrangement, and the borrower has the option to re-acquire these land lots, based on a fixed pricing schedule. These transactions are considered secured financing arrangements. Mortgages between the Trust and entities in which the joint ventures wholly own that were previously eliminated upon consolidation, are now separately presented as mortgages within investments in mortgages. During 2018, the investment in TC/M Oak Creek Trust was sold.

(b) TC/LT Conroe Trust:

The investment in TC/LT Conroe Trust is a lot development project in Texas for future sale.

Prior to the Reorganization, TC/LT Conroe Trust was consolidated as the Trust held 100% of the trust units. As a result of the Reorganization, 56.36% of the trust units in TC/LT Conroe Trust were transferred to the CAD Trust and the Trust now holds 43.64% of the trust units in TC/LT Conroe Trust. As a result, the Trust's investment in TC/LT Conroe Trust is now considered a joint venture with the CAD Trust as the Declaration of Trust for TC/LT Conroe Trust requires unanimous consent from all trust unitholders for any significant decisions. During 2018, the investment in TC/LT Conroe Trust was sold.

6. Investments held at fair value:

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

	Balance, January 1, 2018	IFRS 9 transition adjustment	Additions to investments	Unrealized change in fair value	Realized Change in fair value	Distributions paid	Balance, December 31, 2018
TT/M Apartment Fund Trust (a)	$ 6,790,354	$ -	$ -	$ 938,377	$ -	$ (2,047,884)	$ 5,680,847
Trez Caldwell Station LP (b)	-	-	448,482	2,056	-	-	450,538
Profit Participation Loans	-	1,265,740	294,785	(10,117)	1,132,708	(2,683,116)	-
Total	$ 6,790,354	$ 1,265,740	$ 743,267	$ 930,316	$ 1,132,708	$ (4,731,000)	$ 6,131,385

During 2017, the Trust made an investment in TT/M Apartment Fund Trust in which it holds a 34.4% interest. The investment has been entered into with an established property developer in Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments. The lead developer assumes the development risk associated with the project in that cost overruns are to be borne by them. Any additional capital contributions are funded on a pro-rata basis in accordance with the terms of the agreement.

The investment in TT/M Apartment Fund Trust is an apartment renovation project in Texas for future sale.

(a) During 2018, The Trust made an investment in Trez Caldwell Station LP in which it holds a 12.1% interest. Trez Caldwell Station LP is special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution.

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

(a) As at December 31, 2018, the Trust has authorized an unlimited number of Series A, Series F and Series I redeemable, non-transferrable Units. The $10 Units are issued in U.S. dollars in accordance with the Offering Memorandum of the Trust, dated February 10, 2017.

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

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

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

(a) (continued):

Total distributions for each Unitholder are determined relative to the proportion of the year the Unitholder was invested in the Trust. The holders of Series A Units, Series F Units and Series I Units (collectively, the “Units”) are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder in stipulated increments. 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 penalty if redeemed prior to the first anniversary.

	2018		2017	
USD Class A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	878,449	$ 8,784,498	718,559	$ 7,185,586
Impact of adopting IFRS 9	-	(23,039)	-	-
Issued for cash	259,258	2,592,582	236,500	2,365,000
Issued for reinvested distributions	37,897	378,965	30,707	307,070
Redeemed for cash	(151,841)	(1,518,409)	(85,652)	(856,507)
Transfer between classes	(2,518)	(25,181)	(21,665)	(216,651)
Decrease in net assets attributable to redeemable units, from operations	-	(647,201)	-	-
Issued for top up - 2018	64,720	647,201	-	-
Consolidation of units - 2018	(64,720)	-	-	-
Issued and outstanding, end of year	1,021,245	10,189,416	878,449	8,784,498
IFRS 9 Stage 1 cumulative provisions	-	23,039	-	-
	1,021,245	$ 10,212,455	878,449	$ 8,784,498

	2018		2017	
USD Class F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	8,065,524	$ 80,655,240	8,115,532	$ 81,155,318
Impact of adopting IFRS 9	-	(217,949)	-	-
Issued for cash	1,977,948	19,779,480	1,432,245	14,322,452
Issued for reinvested distributions	407,798	4,077,979	332,894	3,328,939
Redeemed for cash	(758,068)	(7,580,683)	(919,735)	(9,197,352)
Transfer between classes	(32,282)	(322,820)	(895,412)	(8,954,117)
Decrease in net assets attributable to redeemable units, from operations	-	(6,288,708)	-	-
Issued for top up - 2018	628,871	6,288,708	-	-
Consolidation of units - 2018	(628,871)	-	-	-
Issued and outstanding, end of year	9,660,920	96,391,247	8,065,524	80,655,240
IFRS 9 Stage 1 cumulative provisions	-	217,949	-	-
	9,660,920	$ 96,609,196	8,065,524	$ 80,655,240

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

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

(a) (continued):

	2018		2017	
USD Class I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	-	$ -	-	$ -
Impact of adopting IFRS 9	-	(5,259)	-	-
Issued for cash	356,000	3,560,000	-	-
Issued for reinvested distributions	2,326	23,265	-	-
Redeemed for cash	(160,000)	(1,600,000)	-	-
Transfer between classes	34,800	348,001	-	-
Decrease in net assets attributable to redeemable units, from operations	-	(39,817)	-	-
Issued for top up - 2018	3,982	39,817	-	-
Consolidation of units - 2018	(3,982)	-	-	-
Issued and outstanding, end of year	233,126	2,326,007	-	-
IFRS 9 Stage 1 cumulative provisions	-	5,259	-	-
	233,126	$ 2,331,266	-	$ -

	2018		2017	
USD Total units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	8,943,973	$ 89,439,738	8,834,091	$ 88,340,904
Impact of adopting IFRS 9	-	(246,247)	-	-
Issued for cash	2,593,206	25,932,062	1,668,745	16,687,452
Issued for reinvested distributions	448,021	4,480,209	363,601	3,636,009
Redeemed for cash	(1,069,909)	(10,699,092)	(1,005,387)	(10,053,859)
Transfer between classes	-	-	(917,077)	(9,170,768)
Decrease in net assets attributable to redeemable units, from operations	-	(6,975,726)	-	-
Issued for top up - 2018	697,573	6,975,726	-	-
Consolidation of units - 2018	(697,573)	-	-	-
Issued and outstanding, end of year	10,915,291	108,906,670	8,943,973	89,439,738
IFRS 9 Stage 1 cumulative provisions	-	246,247	-	-
	10,915,291	$ 109,152,917	8,943,973	$ 89,439,738

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

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

(b) All series are of the same class and have the same objectives, strategies and restrictions, but differ with respect to one or more of their features, such as fees and distributions. 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 the Series I Units.

The total distribution to be made in respect of the December 31 year end will equal at least 100% of the Trust's taxable income including gains and losses for tax purposes relating to fluctuations of the U.S. dollar relative to the Canadian dollar as explained in note 9, less any reserves that the Manager deems appropriate. For the year ended December 31, 2018, the Trust has declared distributions totaling $15,504,293 (2017 - $6,488,191).

The fourth quarter distribution declared and payable as at December 31, 2018 and 2017 was distributed to the Unitholders subsequent to year end as follows:

	2018	2017
Paid out in cash	$ 1,655,573	$ 760,781
Reinvested as Trust units	-	-
	$ 1,655,573	$ 760,781

8. Promissory note:

	2018	2017
Unsecured, interest free promissory note due from a private entity	$ 728,932	$ 820,364

9. 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 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 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 2018 fiscal tax period.

In general, it is anticipated that distributions of foreign exchange will be distributed in the form of additional units with immediate consolidation to preserve the NAV per unit. For the year ended December 31, 2018 a distribution of $6,975,726 [2017: nil] was paid in units followed by immediate consolidation.

10. Related party transactions and balances:

The Trust invests in mortgages alone or on a participation basis with parties related to the Manager. Title to mortgages is held by nominee corporations as trustee, on behalf of the beneficial owners of the mortgages. In addition, certain duties are performed by the Mortgage Broker.

The Manager and Mortgage Broker are related to the Trust through common control. In cases where mortgages are held on a participation basis:

- The Trust's rights are as outlined in the Declaration of Trust and a Mortgage Participation and Servicing Agreement with the Mortgage Broker.
- Pursuant to this agreement, the Mortgage Broker agrees to administer and service the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's underwriter, servicer and syndicator.
- The Mortgage Broker performs certain duties including registering the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.

10. Related party transactions and balances (continued):

(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.

Each series of units of the Trust is deemed to be entitled to its proportionate share of the average annual gross assets, as defined in the Declaration of Trust. The Manager will be entitled to receive an annual fee (the "Administration Fee") equal to 1.5% of the proportionate share of the Series A Units and the Series F Units of the average annual gross assets and an annual fee equal to 1.15% of the proportionate share of the Series I Units of the average annual gross assets (calculated by using a simple moving average of the month end value of all assets, excluding mortgage syndications, of the Trust) plus applicable taxes, payable quarterly. For each series of units of the Trust, the Manager also receives an additional fee (the “Incentive Fee”) equal to 10% of net earnings and capital gains plus applicable taxes but prior to the deduction for the Incentive Fee, payable annually.

During 2018, the Trust incurred management and incentive fees in the amount of $2,589,854 (2017 - $2,148,564). For the year ended December 31, 2018, the Manager has agreed to waive any incentive fees which would cause distributions of cash to exceed net accounting income prior to distributions. No fees were waived in 2018 and 2017. The Manager retains the right to distribute units to ensure that all taxable income is distributed. At December 31, 2018, $ 1,416,154 (2017 - $1,129,280) in management and incentive fees were owing to the Manager.

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) Other operating expenses:

The Trust will pay for all expenses incurred in connection with its operation and administration. The Trust also will be responsible for commissions and other costs of portfolio transactions, and all liabilities and any extraordinary expenses which it may incur from time to time.

10. Related party transactions and balances (continued):

(c) Transfer of investments in mortgages:

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

During 2018, the Trust purchased investments in mortgages of $8,562,780 (2017 - $9,139,460) from, and sold investments in mortgages of $14,119,519 (2017 - $22,715,205), to entities under common management.

As at December 31, 2018, included in due to related parties is $5,862 (2017 - nil) relating to professional fees and bank charges paid by a related party.

(d) Co-investments in mortgages:

The Trust has invested in a mortgage portfolio with a balance at December 31, 2018 of $113,586,869 (2017 - $79,709,061), virtually all of which are made on a participation basis with related funds and parties.

(e) Non-controlling interest

Included in non-controlling interest on the consolidated statement of financial position is $1,699,193 which is held by the related party under common management. The non-controlling interest relates to the Trust’s investment in Trez Forman Floridian LP of which the non-controlling interest holds 20% interest.

During the year ended December 31, 2018, the Trust has allocated $54,111 of net income to the non-controlling interest.

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

11. Bank indebtedness:

	2018	2017
(a) Canadian dollar indebtedness from a bank with maximum indebtedness of $3,491,596 bearing interest at 6.5% per annum compounded and payable monthly and with maturity date of January 17, 2018. The full amount was repaid subsequent to 2017 year end	$ -	$ 1,666,539
(b) US dollar indebtedness from a bank with maximum indebtedness of $25,000,000 bearing interest at three month LIBOR, as determined on the first day of each calendar month, plus 1.95% and with maturity date of December 31, 2021.	12,500,000	-
(c) US dollar indebtedness from a bank with maximum indebtedness of $24,750,000, bearing interest at LIBOR rate determined by the lender.	9,901,845	-
Total bank indebtedness	$ 22,401,845	$ 1,666,539

(b) In 2018, the Trust entered into a senior secured term loan facility for available proceeds up to US$25,000,000, bearing interest at three month LIBOR, as determined on the first day of each calendar month, plus 1.95%, and maturing on December 31, 2021. As at December 31, 2018, the amount outstanding on the term loan is $12,500,000. The loan is guaranteed by the Trust and other entities related to the Trust by virtue of common control.

The credit facility has financial tests and other covenants with which the Trust must comply. They are as follows:

As of the last day of each fiscal quarter, on a consolidated basis, the Trust shall maintain:

- Net worth – 80% of net worth on the closing date
- Debt to net worth ratio – not more than 0.50 to 1.00
- Liquidity – greater of 2% of net worth and $2,000,000

During the year, the Trust was in compliance with all such covenants.

(c) In 2018, a subsidiary of the Trust, Trez Forman Floridian, entered into a senior secured term loan facility for available proceeds up to US$24,750,000 bearing interest at LIBOR rate determined by the lender, and maturing on January 31, 2021 with option to extend to January 31, 2022. The loan is guaranteed by the Trust and other entities related to the Trust by virtue of common control.

The credit facility has financial tests and other covenants with which the Trust must comply. They are as follows: The Trust shall maintain:

- Net worth – minimum net worth of not less than $250,000,000 CAD in the aggregate
- Liquid assets – not less than $10,000,000 CAD in the aggregate

During the year, the Trust was in compliance with all such covenants.

12. Financial instruments and risk management:

(a) Fair values:

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

The carrying values of the investments in mortgages and syndicated loans payable approximate their fair values because the Manager does not 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 United States dollars, unless otherwise indicated)

12. Financial instruments and risk management (continued):

(a) Fair values (continued):

	Carrying value			
December 31, 2018	Amortized cost	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value				
Investments in mortgages	$ 120,371,507	$ -	$ -	$ 120,371,507
Promissory notes receivable	728,932	-	-	728,932
Cash and cash equivalents	14,830,562	-	-	14,830,562
Restricted cash	159,066	-	-	159,066
Due from related parties	1,383	-	-	1,383
Other Assets	128,271	-	-	128,271
Assets measured at fair value				
Investments held at fair value	-	6,131,385	-	6,131,385
Financial liabilities not measured at fair value				
Bank indebtedness	22,401,845	-	-	22,401,845
Mortgage syndication liabilities	5,973,340	-	-	5,973,340
Management fees payable	1,416,154	-	-	1,416,154
Distributions payable to holders of redeemable units	1,655,573	-	-	1,655,573
Accounts payable and accrued liabilities	292,469	-	-	292,469
Due to related parties	5,862		-	5,862

	Carrying value			
December 31, 2017	Loans and receivable	FVTPL	Other financial liabilities	Fair value
Assets not measured at fair value				
Investments in mortgages	$ 90,471,916	$ -	$ -	$ 90,471,916
Promissory notes receivable	820,364	-	-	820,364
Cash and cash equivalents	1,700,673	-	-	1,700,673
Restricted cash	1,524,750	-	-	1,524,750
Assets measured at fair value				
Foreign currency derivatives	-	38,277	-	38,277
Investments held at fair value	-	6,790,354	-	6,790,354
Financial liabilities not measured at fair value				
Bank indebtedness	-	-	1,666,539	1,666,539
Mortgage syndication liabilities	-	-	9,825,958	9,825,958
Management fees payable	-	-	1,129,280	1,129,280
Distributions payable to holders of redeemable units	-	-	760,781	760,781
Accounts payable and accrued liabilities	-	-	736,128	736,128

12. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

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

(*ii*) Investments held at fair value:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Company's investments in mortgages and mortgage syndication liabilities are carried at fair value in the financial statements.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Company's investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

12. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

2018	Level 1	Level 2	Level 3	Total
Investments held at fair value	$ -	$ -	$ 6,131,385	$ 6,131,385

2017	Level 1	Level 2	Level 3	Total
Investments held at fair value	$ -	$ -	$ 6,790,354	$ 6,790,354

There were no transfers between levels during 2018 (2017 - nil).

A reconciliation of Level 3 assets at December 31, 2018 is as follows:

Investments held at fair value, December 31, 2017	$ 6,790,354
IFRS 9 transition adjustment	1,265,740
Additions to investments	743,267
Unrealized change in fair value	930,316
Realized change in fair value	1,132,708
Distributions paid	(4,731,000)
Investments held at fair value, December 31, 2018	$ 6,131,385

12. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

At December 31, 2018, a 25 basis point increase in the discount rate would decrease the fair value by $2,408 and a 25 basis point decrease in the discount rate would increase the fair value by $2,455.

(*iii*) Foreign currency derivatives:

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

(*iv*) Other financial assets and liabilities:

The carrying values of financial assets and financial liabilities not measured at fair values, such as cash, other assets, due from related parties, promissory notes, accounts payable and accrued liabilities, syndicated mortgage liabilities, management fees payable, distribution payable to holders of redeemable units, and net assets attributable 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.

12. Financial instruments and risk management (continued):

(a) Fair values (continued):

(*v*) 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 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

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2017 and 2016.

(b) Financial risk management:

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

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

Management's risk management policies are typically performed as a part of the overall management of the Trust’s operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Trust may be exposed to a number of risks that could affect its operating performance. Management’s close involvement in operations will help to identify risks and variations from expectations. The Trust has not designated any transactions as hedging transactions to manage risk.

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

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

(*i*) Credit risk:

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

As at December 31, 2018, the largest mortgage investment in the Trust's mortgage portfolio was $18,319,632 (2017 - $6,845,439) which is 16.78% (2017 – 7.65%) of the Trust's net asset value, and 16.13% (2017 – 8.59%) of its mortgage portfolio.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2018 and 2017 is represented by the respective carrying amounts of the relevant financial assets in the consolidated 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 liquidity requirements relate to its obligations under its loans payable, accounts payable and accrued liabilities, syndicated loan liability, distributions payable to holders of redeemable units, redeemable units, loans payable and its obligations to make future advances under its existing mortgage portfolio. Liquidity risk is managed by ensuring that the sum of: (i) availability under the Trust's bank borrowing line; (ii) the sourcing of other borrowing facilities; and (iii) projected repayments under the existing mortgage portfolio, exceeds projected needs (including funding of further advances under existing and new mortgage investments).

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*ii*) Liquidity risk (continued):

As at December 31, 2018, 21.87% of the Trust's mortgage portfolio, being $24,842,074, is due on or before December 31, 2019 (2017 - 20.48% or $16,325,573 was due on or before December 31, 2018). The Trust had no mortgages that were overdue on December 31, 2018.

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

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. As described in note 7, units are redeemable by the unit holders upon 30 days' notice. A significant rise in interest rates may cause unit holders to redeem their Units and could cause a shortfall in funds available to meet such redemptions. The Trust charges a 1% prepayment penalty on redemptions made prior to the first anniversary from the units' issuance.

As at December 31, 2018, all the Trust Mortgage investments had a fixed rate of return, therefore an increase or decrease in interest rates would not have had an impact on the Trust' net income. A 0.25% increase or decrease in the interest rates with all other variables held constant would increase or decrease the Trust's income by approximately $20,412 (2017 - $20,967) arising from income generated on the trusts cash deposits.

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*iii*) Market risk (continued):

(B) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Trust's functional currency is U.S dollars.

(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.

13. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2018 was $ 108,906,670 (2017 - $89,439,738).

The Trust’s objective when managing capital is to maintain its ability to continue as a going concern and ensure that it has sufficient cash resources to invest in mortgages in order to provide a return to its Unitholders. The Trust manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Trust may issue new 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 document.

(Tabular amounts expressed in United States dollars, unless otherwise indicated)

14. Transition to IFRS 9:

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

Comparative periods have not been restated. Measurement differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 relates solely to impairment in the amount of $246,507 and which has been recognized in net assets attributable to holders of redeemable units as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

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

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

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

Asset/liability	IAS 39, measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	Note
Cash	Loans and receivables	Amortized cost	1,700,673	-	-	1,700,673	-
Restricted cash	Loans and receivables	Amortized cost	1,524,750	-	-	1,524,750	-
Foreign currency derivatives	FVTPL	FVTPL	38,227	-	-	38,227	-
Investments in mortgages	Loans and receivables	Amortized cost	90,471,916	(1,265,740)	(246,507)[(a)]	88,963,669	4
Investments in joint ventures	Loans and receivables	Amortized cost	1,991,393	-	-	1,991,393	-
Investments held at fair value	FVTPL	FVTPL	6,790,354	1,265,740[(b)]	-	8,056,094	6
Promissory notes receivable	Loans and receivables	Amortized cost	820,364	-	-	820,364	-
Due from related parties	Loans and receivables	Amortized cost	-	-	-	-	-
Other assets	Loans and receivables	Amortized cost	220,747	-	-	220,747	-
Bank indebtedness	Other financial liabilities	Amortized cost	1,666,539	-	-	1,666,539	-
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	736,128	-	-	736,128	-
Foreign currency derivatives	FVTPL	FVTPL	-	-	-	-	-
Mortgage syndication liabilities	Other financial liabilities	Amortized cost	9,825,958	-	-	9,825,958	-
Management fees payable	Other financial liabilities	Amortized cost	1,129,280	-	-	1,129,280	-
Due to related parties	Other financial liabilities	Amortized cost	-	-	-	-	-
Distributions payable to holders of redeemable units	Other financial liabilities	Amortized cost	760,781	-	-	760,781	-
Net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost	89,439,738	-	-	89,439,738	-

(a) The remeasurement is the result of the adoption of the ECL model under IFRS 9.
(b) All profit participating loans were reclassified from amortized cost to fair value through profit and loss.