



Consolidated Financial Statements  
(Expressed in Canadian dollars)

# **TREZ CAPITAL YIELD TRUST US (CANADIAN \$)**

And Independent Auditors' Report thereon

Year ended December 31, 2021



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of Trez Capital Yield Trust US (Canadian \$)

### ***Opinion***

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

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of comprehensive 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 consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### ***Basis for Opinion***

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

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

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



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

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

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

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

## ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.  
  
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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity 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 20, 2022

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Financial Position  
(Expressed in Canadian dollars)

December 31, 2021, with comparative information for 2020

|   | Notes | 2021                    | 2020                  |
|---|-------|-------------------------|-----------------------|
| <b>Assets</b>   |       |                         |                       |
| Cash and cash equivalents   |       | \$ 165,364,013          | \$ 127,101,355        |
| Foreign currency derivatives and margin deposits                                      | 11    | 28,400,630              | 28,197,101            |
| Investments in mortgages  | 4     | 719,309,067             | 689,816,003           |
| Investments held at fair value  | 6     | 176,681,558             | 79,733,080            |
| Investments in joint ventures   | 5     | 4,910,545               | 8,179,318             |
| Investments in associates   | 7     | 5,937,162               | 4,305,400             |
| Promissory notes receivable   | 9     | 488,946                 | 2,964,675             |
| Due from related party  |       | 4,286,193               | -                     |
| Other assets  |       | 15,833,746              | 2,097,803             |
|   |       | <b>\$ 1,121,211,860</b> | <b>\$ 942,394,735</b> |
| <b>Equity</b>   |       |                         |                       |
| Accumulated other comprehensive income (loss)   |       | \$ (37,094)             | \$ (84,447)           |
| Non-controlling interests   | 12(e) | 4,331,270               | 3,642,065             |
|   |       | <b>4,294,176</b>        | <b>3,557,618</b>      |
| <b>Liabilities and Net Assets Attributable to Holders of Redeemable Units</b>         |       |                         |                       |
| Secured borrowing   | 13    | 173,225,459             | 153,538,051           |
| Accounts payable and accrued liabilities  | 8     | 3,129,415               | 6,194,165             |
| Mortgage syndication liabilities  | 4(a)  | 11,046,862              | 19,880,979            |
| Management and incentive fees payable   | 12(a) | -                       | 1,156,786             |
| Due to related parties  |       | 1,650,421               | 8,658                 |
| Distributions payable to holders of redeemable units                                  | 8(b)  | 2,990,952               | 2,994,891             |
| Loan Payable  |       | 11,280,302              | -                     |
| Interest Payable  |       | 31,935                  | -                     |
|   |       | <b>203,355,346</b>      | <b>183,773,530</b>    |
| Redeemable units, representing net assets attributable to holders of redeemable units | 8     | 913,562,338             | 755,063,587           |
|   |       | <b>\$ 1,121,211,860</b> | <b>\$ 942,394,735</b> |

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 YIELD TRUST US (CANADIAN \$)

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

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

|  | Notes | 2021              | 2020                  |
|--|-------|-------------------|-----------------------|
| <b>Revenue:</b>  |       |                   |                       |
| Interest income  |       | \$ 71,252,983     | \$ 80,010,582         |
| Interest expense on mortgage syndication liabilities                 |       | (408,561)         | (2,182,403)           |
|  |       | <u>70,844,422</u> | <u>77,828,179</u>     |
| <b>Expenses:</b>   |       |                   |                       |
| Management and incentive fees  | 12(a) | 10,023,167        | 16,195,045            |
| Foreign exchange loss  |       | 452,769           | 1,145,641             |
| General and administrative   |       | 5,091,198         | 3,400,175             |
| Provision for mortgage losses  | 4(c)  | 377,000           | 400,000               |
|  |       | <u>15,944,134</u> | <u>21,140,861</u>     |
| Gain (Loss) from investment in joint ventures                        | 5     | 377,956           | (50,024)              |
| Gain (Loss) from investment in associates                            | 7     | (637,429)         | (468,031)             |
| Realized fair value gains (losses) on investments held at fair value | 6     | 3,453,467         | 1,154,382             |
| Unrealized fair value gains on investments held at fair value        | 6     | 7,996,557         | 5,351,047             |
| Other income   |       | 1,946,749         | -                     |
|  |       | <u>68,037,588</u> | <u>62,674,692</u>     |
| <b>Income from operations</b>  |       |                   |                       |
|  |       |                   |                       |
| <b>Financing costs:</b>  |       |                   |                       |
| Interest expense   |       | 12,485,530        | 11,350,532            |
| Distributions to holders of redeemable units                         | 8(b)  | 55,229,530        | 52,578,939            |
|  |       | <u>67,715,060</u> | <u>63,929,471</u>     |
|  |       |                   |                       |
| <b>Net income (loss) for the year</b>                                |       | <b>\$ 322,528</b> | <b>\$ (1,254,779)</b> |
| <b>Attributable to:</b>  |       |                   |                       |
| Holder of redeemable units   |       | \$ (424,351)      | \$ (1,562,164)        |
| Non-controlling interests  | 12(e) | 746,879           | 307,385               |
|  |       | <u>\$ 322,528</u> | <u>\$ (1,254,779)</u> |

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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

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

|  | 2021         | 2020           |
|--|--------------|----------------|
| Income (loss) for the year   | \$ 322,528   | \$ (1,254,779) |
| Other comprehensive income (loss):   |              |                |
| Translation adjustment to arrive at presentation<br>currency of Canadian dollars | 47,353       | (48,036)       |
| Comprehensive income (loss) end of year  | \$ 369,881   | \$ (1,302,815) |
| Net comprehensive income (loss) attributable to:                                 |              |                |
| Net assets attributable to holders of redeemable units                           | \$ (376,998) | \$ (1,610,200) |
| Non-controlling interests  | 746,879      | 307,385        |
|  | \$ 369,881   | \$ (1,302,815) |

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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

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

|   | 2021           | 2020           |
|---|----------------|----------------|
| Balance, beginning of the year                    | \$ 755,063,587 | \$ 685,144,984 |
| Loss attributable to holders of redeemable units  | (424,351)      | (1,562,164)    |
| Contributions and redemptions:                    |                |                |
| Issuance of units                                 | 272,640,842    | 129,901,487    |
| Reinvestment of distributions on redeemable units | 19,879,497     | 18,639,727     |
| Redemptions                                       | (133,597,237)  | (77,060,447)   |
|   | 158,923,102    | 71,480,767     |
| Balance, end of year                              | \$ 913,562,338 | \$ 755,063,587 |

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Consolidated Statement of Cash Flows  
(Expressed in Canadian dollars)

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

|   | 2021            | 2020           |
|---|-----------------|----------------|
| Cash provided by (used in):                                       |                 |                |
| Operating activities:   |                 |                |
| Loss for the year   | \$ 322,528      | \$ (1,254,779) |
| Items not involving cash:   |                 |                |
| Interest income, net of interest expense on syndications          | (70,844,422)    | (77,828,179)   |
| (Gain) loss from investments in joint ventures                    | (377,956)       | 50,024         |
| Loss from investments in associates                               | 637,429         | 468,031        |
| Realized fair value (gain) loss on investments held at fair value | (3,453,467)     | (1,154,382)    |
| Unrealized fair value gain on investments held at fair value      | (7,996,557)     | (5,351,047)    |
| Unrealized foreign exchange                                       | 5,702,144       | 13,823,966     |
| Promissory note receivable  | 2,475,729       | 2,742,809      |
| Provision for mortgage losses                                     | 377,000         | 400,000        |
| Distributions to holders of redeemable units                      | 55,229,530      | 52,578,939     |
| Unrealized (gain) loss on forward currency derivatives            | 7,835,636       | 1,928,559      |
| Interest payable  | 31,935          | -              |
| Interest received   | 22,926,862      | 21,617,217     |
| Changes in non-cash operating working items:                      |                 |                |
| Margin deposits   | (8,039,165)     | (8,501,456)    |
| Other assets  | (13,735,943)    | (589,173)      |
| Management and incentive fees payable                             | (1,156,786)     | (4,943,845)    |
| Accounts payable and accrued liabilities                          | (3,064,750)     | 5,521,005      |
|   | (13,130,253)    | (492,311)      |
| Investing activities:   |                 |                |
| Funding of investments in mortgages                               | (1,000,087,556) | (624,921,574)  |
| Principal repayments on investments in mortgages                  | 1,004,254,399   | 594,741,836    |
| Contributions (distributions) to joint ventures                   | 3,587,778       | (6,786,170)    |
| Contributions (distributions) to investment in associates         | (2,307,027)     | (4,991,492)    |
| Contributions (distributions) to investments held at fair value   | (86,009,921)    | 4,235,794      |
| Contributions (distributions) to non-controlling interests        | (57,674)        | 1,270,563      |
|   | (80,620,001)    | (36,451,043)   |
| Financing activities:   |                 |                |
| Distributions paid  | (35,353,973)    | (35,799,369)   |
| Issuance of units   | 272,640,842     | 129,901,487    |
| Redemption of units   | (133,597,237)   | (77,060,447)   |
| Due to (from) related parties                                     | (2,644,430)     | 310,662        |
| Secured borrowing   | 19,687,408      | 65,289,327     |
| Proceeds loan payable   | 11,280,302      | -              |
|   | 132,012,912     | 82,641,660     |
| Increase in cash and cash equivalents                             | 38,262,658      | 45,698,306     |
| Cash and cash equivalents, beginning of year                      | 127,101,355     | 81,403,049     |
| Cash and cash equivalents, end of year                            | \$ 165,364,013  | \$ 127,101,355 |

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 1. Nature of business:

Trez Capital Yield Trust US (Canadian \$) (the "Trust") is an unincorporated trust established under the laws of British Columbia pursuant to a Declaration of Trust dated December 8, 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.").

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

On March 11, 2020, the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization. . Emergency measures to contain the spread of the virus were implemented , which impacted general economic conditions, including the temporary closure of business and uncertainty around employment in certain industries. Although global economies are reopening, the situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the Trust are not known at this time. These impacts could include increases in expected credit losses for mortgage investments and potential future decreases in revenue or the profitability of ongoing operations.

## 2. Basis of preparation:

### (a) Statement of compliance:

These 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").

These consolidated financial statements were authorized for issue by the Board of Governors on April 20, 2022.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

The Trust's functional currency is the U.S. dollar. Foreign currency monetary assets and liabilities are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 2. Basis of preparation (continued):

### (c) Functional and presentation currency (continued):

The Trust is using the Canadian dollar as its presentation currency. All assets and liabilities are translated using the exchange rate at the reporting date. Revenue and expenses are translated using the average rate for the period. Equity accounts are translated using the historical rate. The translation differences from the Trust's functional currency of U.S. dollars to the presentation currency of Canadian dollars are recorded in other comprehensive income.

### (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 relate to allowance for credit losses for investments 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(h)(ii). The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary by a material amount.

#### (ii) Investments at fair value:

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

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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 2. Basis of preparation (continued):

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

#### (iii) Investments in associates:

Investments over which the Trust holds significant influence are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of the investee without actual control or joint control of those policies. Under the equity method, the investment is initially recognized at cost and is 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 loss.

The Trust holds investments in associates primarily for the purpose of investing in real estate development projects.

#### (iv) Investments in jointly controlled entities:

The Trust and certain of its subsidiaries have interests in a number of development joint ventures, which are accounted for using the equity method.

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 Loss.

## 3. Significant accounting policies:

### (a) Basis of presentation:

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

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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 3. Significant accounting policies (continued):

### (a) Basis of presentation (continued):

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 loss and within equity in the Consolidated Statement of Financial Position.

The Trust owns and consolidates the following material subsidiaries:

|                                | Province of<br>Registration | Percentage<br>of ownership |
|--------------------------------|-----------------------------|----------------------------|
| Trez Capital (2018) Nominee LP | British Columbia            | 100%                       |
| Trez Camperdown LP             | British Columbia            | 85%                        |
| Trez Capital Avilla Trails LP  | British Columbia            | 100%                       |
| TC LB LP                       | British Columbia            | 80%                        |
| TC LB Aspen Meadows LP         | British Columbia            | 80%                        |
| TC LB Bella Vita LP            | British Columbia            | 80%                        |
| TC LB Heron Bay LP             | British Columbia            | 80%                        |
| TC LB Royal Pines LP           | British Columbia            | 80%                        |
| TRCH Elm Creek LP              | British Columbia            | 82%                        |

The principal business activity of Trez Capital (2018) Nominee LP, Trez Camperdown LP and Trez Capital Avilla Trails LP are investment in mortgages.

During 2021, the Trust made investments in TC LB LP, TC LB Aspen Meadows LP, TC LB Bella Vita LP, TC LB Heron Bay LP, TC LB Royal Pines LP and TRCH Elm Creek LP. These investments were established to facilitate land banking transactions with 99% of funding provided as a mortgage.

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

### (b) Cash and cash equivalents:

Cash and cash equivalents consists 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 3. Significant accounting policies (continued):

### (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 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 Loss in the same period.

### (f) Revenue recognition:

Interest income is recognized in the consolidated statement of comprehensive loss on an effective interest rate basis. Interest on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (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 Loss, following the units' classification as liabilities. Distributions are accrued in the period to which they relate.

### (h) Financial instruments:

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

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

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

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

The most significant financial asset that is a debt instrument in the Trust is investments in mortgages. The objective of the Trust is to hold these investments and collect the contractual interest payments from the loans. The payments received by the Trust are solely payments of principal and interest; therefore the asset meets the criteria under IFRS 9 to be measured at amortized cost.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 3. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

Financial liabilities are recognized initially at fair value and are classified as 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 |
|---|----------------|
| <b>Financial assets:</b>  |                |
| Cash and cash equivalents   | Amortized cost |
| Foreign currency derivatives and margin deposits                                      | FVTPL          |
| Investments in mortgages  | Amortized cost |
| Investments held at fair value  | FVTPL          |
| Promissory notes receivable   | Amortized cost |
| Due from related party  | Amortized cost |
| <b>Financial liabilities:</b>   |                |
| Secured borrowing   | Amortized cost |
| Accounts payable and accrued liabilities  | Amortized cost |
| Management and incentive fees payable   | Amortized cost |
| Due to related parties  | Amortized cost |
| 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 |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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### 3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(ii) Impairment:

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

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

*Performing financial assets:*

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

*Impaired financial assets:*

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

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

Other additional risk factors considered to identify a significant increase in credit risk are:

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

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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 3. Significant accounting policies (continued):

### (h) Financial instruments (continued):

#### (ii) Impairment (continued):

Judgment is required in making assumptions and estimations when calculating the ECL, including movements between the three stages and the application of forward looking information.

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

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

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

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

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 3. Significant accounting policies (continued):

### (h) Financial instruments (continued):

#### (ii) Impairment (continued):

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

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

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

##### (A) Financial assets:

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 3. Significant accounting policies (continued):

### (h) Financial instruments (continued):

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

##### (B) Financial liabilities:

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

#### (iv) Loan modifications:

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

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

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

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

#### (i) Accumulated other comprehensive income:

Accumulated other comprehensive income represents the cumulative translation adjustment of foreign operations whose functional currency is in U.S. dollars.

#### (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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 3. Significant accounting policies (continued):

### (j) Income taxes (continued):

The Trust holds certain investments in associates and joint ventures based in the U.S. 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 U.S. Internal Revenue Service based on a determination of taxable income for U.S. tax purposes. Accordingly, current income tax recognized in the consolidated statement of comprehensive loss is based on the subsidiary's U.S. 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.

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 carryforwards, 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, 2021:

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

## 4. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

| Property type                                   | 2021   |                | 2020   |                |
|---|--------|----------------|--------|----------------|
|   | Number | Amount         | Number | Amount         |
| Residential                                     | 97     | \$ 535,157,774 | 98     | \$ 549,940,469 |
| Office  | 2      | 108,564,147    | 1      | 93,679,802     |
| Retail  | 1      | 50,358         | 4      | 6,615,142      |
| Other   | 8      | 61,149,598     | 5      | 15,234,617     |
|   | 108    | 704,921,877    | 108    | 665,470,030    |
| Mortgage syndications                           |        | 11,046,862     |        | 19,880,979     |
| Accrued interest                                |        | 6,067,328      |        | 6,814,994      |
| Less: Provision for mortgage losses (Note 4(c)) |        | (2,727,000)    |        | (2,350,000)    |
| Investment in mortgages                         |        | \$ 719,309,067 |        | \$ 689,816,003 |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 4. Investments in mortgages (continued):

| Property location      | 2021       |                       | 2020       |                       |
|------------------------|------------|-----------------------|------------|-----------------------|
|                        | Number     | Amount                | Number     | Amount                |
| Texas                  | 49         | \$ 302,379,023        | 66         | \$ 369,409,386        |
| Florida                | 19         | 44,690,678            | 11         | 19,695,238            |
| Washington             | 2          | 18,545,575            | 3          | 72,237,611            |
| South Carolina         | 3          | 113,000,464           | 3          | 98,947,403            |
| Georgia                | 7          | 15,437,416            | 7          | 23,703,202            |
| North Carolina         | 3          | 7,943,514             | 5          | 12,723,849            |
| Oregon                 | 1          | 7,269,820             | 1          | 13,742,767            |
| Arizona                | 10         | 97,914,320            | 6          | 17,313,829            |
| Tennessee              | 1          | 48,442,769            | -          | -                     |
| Utah                   | 3          | 10,244,254            | -          | -                     |
| Nevada                 | 1          | 16,202,640            | -          | -                     |
| Michigan               | 1          | 6,040,495             | -          | -                     |
| Pennsylvania           | 1          | 1,095,667             | -          | -                     |
| California             | 1          | 1,250,117             | -          | -                     |
| Idaho                  | 3          | 4,163,148             | 2          | 5,025,247             |
| Ohio                   | 1          | 505                   | -          | -                     |
| Colorado               | 1          | 9,910,338             | 1          | 1,952,210             |
| Oklahoma               | 1          | 391,134               | -          | -                     |
| New York               | -          | -                     | 1          | 2,406,739             |
| Kansas                 | -          | -                     | 1          | 28,311,258            |
| New Mexico             | -          | -                     | 1          | 1,291                 |
| <b>Total mortgages</b> | <b>108</b> | <b>\$ 704,921,877</b> | <b>108</b> | <b>\$ 665,470,030</b> |

The following table presents the reconciliation of mortgages for the year ended December 31, 2021:

|   | 2021                  | 2020                  |
|---|-----------------------|-----------------------|
| Investments in mortgages, beginning of year                         | \$ 689,816,003        | \$ 649,536,640        |
| Provision for expected credit losses, net of recoveries (Note 4(c)) | (377,000)             | (400,000)             |
| Funding of investments in mortgages                                 | 1,000,087,556         | 624,921,574           |
| Interest capitalized to investments in mortgages                    | 48,665,228            | 55,775,137            |
| Principal payments of investments in mortgages                      | (1,004,254,399)       | (594,741,836)         |
| Increase (decrease) in mortgage syndications                        | (8,834,117)           | (30,793,207)          |
| Change in accrued interest  | (747,666)             | 435,825               |
| Foreign exchange translation  | (5,046,538)           | (11,734,228)          |
| Reclassification to Promissory Note                                 | -                     | (3,183,902)           |
| <b>Investments in mortgages, end of year</b>                        | <b>\$ 719,309,067</b> | <b>\$ 689,816,003</b> |

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 9.33% (2020 - 11.09%).

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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 4. Investments in mortgages (continued):

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

| Maturity period | Number | Amount         |
|-----------------|--------|----------------|
| 2022            | 47     | \$ 369,540,561 |
| 2023            | 36     | 172,924,172    |
| 2024            | 20     | 53,267,467     |
| 2025 and beyond | 5      | 109,189,677    |
|                 | 108    | \$ 704,921,877 |

### (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 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 statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is \$11,046,862 (2020 - \$19,880,979).

### (b) Mortgages in default:

As at December 31, 2021, the Trust had no (2020 - two) mortgages that was past due or in default (2020 - \$6,805,104). The Manager believes the value of the underlying security is sufficient to cover any potential loss on the mortgage and as such, no loss provision has been recognized.

### (c) Provision for mortgage losses:

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

| Gross carrying amount | December 31, 2021 |         |         | Total          |
|-----------------------|-------------------|---------|---------|----------------|
|                       | Stage 1           | Stage 2 | Stage 3 |                |
| Property type:        |                   |         |         |                |
| Residential           | \$ 535,157,774    | \$ -    | \$ -    | \$ 535,157,774 |
| Office                | 108,564,147       | -       | -       | 108,564,147    |
| Retail                | 50,358            | -       | -       | 50,358         |
| Other                 | 61,149,598        | -       | -       | 61,149,598     |
|                       | \$ 704,921,877    | \$ -    | \$ -    | \$ 704,921,877 |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 4. Investments in mortgages (continued):

(c) Provision for mortgage losses (continued):

| Gross carrying amount | December 31, 2020 |         |              | Total          |
|-----------------------|-------------------|---------|--------------|----------------|
|                       | Stage 1           | Stage 2 | Stage 3      |                |
| Property type:        |                   |         |              |                |
| Residential           | \$ 543,135,365    | \$ -    | \$ 6,805,104 | \$ 549,940,469 |
| Office                | 93,679,802        | -       | -            | 93,679,802     |
| Retail                | 6,615,142         | -       | -            | 6,615,142      |
| Other                 | 15,234,617        | -       | -            | 15,234,617     |
|                       | \$ 658,664,926    | \$ -    | \$ 6,805,104 | \$ 665,470,030 |

| Provision for mortgage losses | December 31, 2021 |         |         | Total        |
|-------------------------------|-------------------|---------|---------|--------------|
|                               | Stage 1           | Stage 2 | Stage 3 |              |
| Property type:                |                   |         |         |              |
| Residential                   | \$ 2,316,000      | \$ -    | \$ -    | \$ 2,316,000 |
| Office                        | 334,000           | -       | -       | 334,000      |
| Retail                        | 1,000             | -       | -       | 1,000        |
| Other                         | 76,000            | -       | -       | 76,000       |
|                               | \$ 2,727,000      | \$ -    | \$ -    | \$ 2,727,000 |

| Provision for mortgage losses | December 31, 2020 |         |         | Total        |
|-------------------------------|-------------------|---------|---------|--------------|
|                               | Stage 1           | Stage 2 | Stage 3 |              |
| Property type:                |                   |         |         |              |
| Residential                   | \$ 1,966,000      | \$ -    | \$ -    | \$ 1,966,000 |
| Office                        | 328,000           | -       | -       | 328,000      |
| Retail                        | 25,000            | -       | -       | 25,000       |
| Other                         | 31,000            | -       | -       | 31,000       |
|                               | \$ 2,350,000      | \$ -    | \$ -    | \$ 2,350,000 |

The provision for mortgage losses at December 31, 2021 is \$2,727,000 (2020 - \$2,350,000). 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 Stage 3. Management estimated the ECL for these as nil, primarily due to the mortgage collateral held on the mortgages.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 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, 2021 |         |         |              |
|--|-------------------|---------|---------|--------------|
|  | Stage 1           | Stage 2 | Stage 3 | Total        |
| December 31, 2020                          | \$ 2,350,000      | \$ -    | \$ -    | \$ 2,350,000 |
| Provision for mortgage losses:             |                   |         |         |              |
| Transfers to (from) Stage 1 <sup>(1)</sup> | 7,000             | -       | -       | 7,000        |
| Transfers to (from) Stage 2 <sup>(1)</sup> | -                 | -       | -       | -            |
| Transfers to (from) Stage 3 <sup>(1)</sup> | -                 | -       | -       | -            |
| Net remeasurement <sup>(2)</sup>           | (296,000)         | -       | -       | (296,000)    |
| Mortgage advances                          | 2,002,000         | -       | -       | 2,002,000    |
| Mortgage repayments                        | (1,336,000)       | -       | -       | (1,336,000)  |
| Write-offs                                 |                   |         |         |              |
| December 31, 2021                          | \$ 2,727,000      | \$ -    | \$ -    | \$ 2,727,000 |

|  | December 31, 2020 |         |         |              |
|--|-------------------|---------|---------|--------------|
|  | Stage 1           | Stage 2 | Stage 3 | Total        |
| December 31, 2019                          | \$ 1,950,000      | \$ -    | \$ -    | \$ 1,950,000 |
| Provision for mortgage losses:             |                   |         |         |              |
| Transfers to (from) Stage 1 <sup>(1)</sup> | -                 | -       | -       | -            |
| Transfers to (from) Stage 2 <sup>(1)</sup> | -                 | -       | -       | -            |
| Transfers to (from) Stage 3 <sup>(1)</sup> | -                 | -       | -       | -            |
| Net remeasurement <sup>(2)</sup>           | (40,000)          | -       | -       | (40,000)     |
| Mortgage advances                          | 1,088,000         | -       | -       | 1,088,000    |
| Mortgage repayments                        | (648,000)         | -       | -       | (648,000)    |
| Write-offs                                 | -                 | -       | -       | -            |
| December 31, 2020                          | \$ 2,350,000      | \$ -    | \$ -    | \$ 2,350,000 |

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

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

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 5. Investments in joint ventures:

|   | Equity investment<br>December 31,<br>2020 | Net contributions<br>(distributions) | Shares of earnings<br>(loss) | Impact of foreign<br>exchange<br>translation | Equity investment<br>December 31,<br>2021 |
|---|---|--------------------------------------|------------------------------|--|---|
| HT HWY 66 LP <sup>(a)</sup>             | \$ 1,406,146                              | \$ -                                 | \$ (159,210)                 | \$ (11,960)                                  | \$ 1,234,976                              |
| TC/F Red Oak LP <sup>(b)</sup>          | 2,959,917                                 | (3,587,778)                          | 645,057                      | (17,196)                                     | -   |
| Trail Creek Partners Ltd <sup>(c)</sup> | 3,813,255                                 | -                                    | (107,891)                    | (29,795)                                     | 3,675,569                                 |
| <b>Total</b>                            | <b>\$ 8,179,318</b>                       | <b>\$ (3,587,778)</b>                | <b>\$ 377,956</b>            | <b>\$ (58,951)</b>                           | <b>\$ 4,910,545</b>                       |

|   | Equity investment<br>December 31,<br>2019 | Net contributions<br>(distributions) | Shares of earnings<br>(loss) | Impact of foreign<br>exchange<br>translation | Equity investment<br>December 31,<br>2020 |
|---|---|--------------------------------------|------------------------------|--|---|
| HT HWY 66 LP <sup>(a)</sup>             | \$ 1,469,672                              | \$ -                                 | \$ (36,339)                  | \$ (27,187)                                  | \$ 1,406,146                              |
| TC/F Red Oak LP <sup>(b)</sup>          | -   | 2,965,487                            | (5,865)                      | 295  | 2,959,917                                 |
| Trail Creek Partners Ltd <sup>(c)</sup> | -   | 3,820,683                            | (7,820)                      | 392  | 3,813,255                                 |
| <b>Total</b>                            | <b>\$ 1,469,672</b>                       | <b>\$ 6,786,170</b>                  | <b>\$ (50,024)</b>           | <b>\$ (26,500)</b>                           | <b>\$ 8,179,318</b>                       |

### (a) HT HWY 66 LP:

During 2019, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust US (Canadian\$) Sub-Trust, acquired a 50% interest in HT HWY 66 LP. The Trust has determined that it has joint control over HT HWY 66 LP and accounts for its investment using the equity method. HT HWY 66 LP will exercise pre-development activities with respect to the project, and will acquire obtain, own, manage, develop, construct, operate, finance, sell and otherwise deal with the project and in all respects act as owner thereof, upon and subject to the terms and conditions of the LPA. Any additional capital contributions are funded on a pro-rata basis in accordance with the terms of the agreement.

### (b) TC/F Red Oak LP:

During 2020, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust US (Canadian\$) Sub-Trust, acquired a 45.98% interest in TC/F Red Oak LP. The Trust has determined that it has joint control over TC/F Red Oak LP and accounts for its investment using the equity method.

### (c) Trail Creek Partners Ltd:

During 2020, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust US (Canadian\$) Sub-Trust, acquired a 64.29% interest in Trail Creek Partners Ltd. The Trust has determined that it has joint control over Trail Creek Partners Ltd. and accounts for its investment using the equity method.

Both TC/F Red Oak LP and Trail Creek Partners Ltd. have been entered into with established property developers in Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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Year ended December 31, 2021

## 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,<br>December 31,<br>2020 | Additions to/<br>(disposals of)<br>investments | Unrealized<br>change in<br>fair value | Realized<br>change in<br>fair value | Impact of<br>foreign<br>exchange<br>translation | Balance,<br>December 31,<br>2021 |
|--|----------------------------------|--|---------------------------------------|-------------------------------------|---|----------------------------------|
| TT/M Apartment Fund<br>Blocker LP <sup>(a)</sup>               | \$ 536,857                       | \$ -   | \$ 88,926                             | \$ -                                | \$ (3,348)                                      | \$ 622,435                       |
| Trez Caldwell Station LP <sup>(b)</sup>                        | 12,729,962                       | (13,196,281)                                   | -                                     | 558,311                             | (91,992)  | -                                |
| Trez Avilla Meadows LP <sup>(c)</sup>                          | 5,145,955                        | 6,277,851                                      | 1,871,374                             | -                                   | (23,795)  | 13,271,385                       |
| Trez Shops at Broad LP <sup>(d)</sup>                          | 16,505,236                       | (4,776,335)                                    | 1,429,363                             | -                                   | (113,534)                                       | 13,044,730                       |
| Trez Blue Diamond LP <sup>(e)</sup>                            | 20,519,524                       | (17,877,341)                                   | 998,658                               | -                                   | (147,481)                                       | 3,493,360                        |
| Trez Capital McGill LP <sup>(f)</sup>                          | 15,837,540                       | (15,711,317)                                   | -                                     | (6,070)                             | (120,153)                                       | -                                |
| Trez Capital (2017) Nominee LP <sup>(g)</sup>                  | 8,458,006                        | (3,738,833)                                    | 484,475                               | -                                   | (60,197)  | 5,143,451                        |
| Trez Capital Winston LP <sup>(h)</sup>                         | -                                | 9,815,103                                      | 448,702                               | -                                   | 3,652   | 10,267,457                       |
| Trez Capital Logistics LP <sup>(i)</sup>                       | -                                | 5,588,870                                      | 450,884                               | -                                   | 3,670   | 6,043,424                        |
| Trez Capital Block 40 LP <sup>(j)</sup>                        | -                                | 4,883,732                                      | 534,794                               | -                                   | 4,352   | 5,422,878                        |
| Trez Capital Manhattan Bridge LP <sup>(k)</sup>                | -                                | 17,222,475                                     | 797,503                               | -                                   | 6,490   | 18,026,468                       |
| Trez Capital Alloro LP <sup>(l)</sup>                          | -                                | 2,224,686                                      | 17,039                                | -                                   | 139   | 2,241,864                        |
| Trez Capital Brooklyn Bridge LP <sup>(m)</sup>                 | -                                | 35,527,530                                     | 278,358                               | -                                   | 2,265   | 35,808,153                       |
| Trez Capital Land T LP <sup>(n)</sup>                          | -                                | (2,924,837)                                    | -                                     | 2,901,226                           | 23,611  | -                                |
| TH Self Storage #1 Aggregator LP <sup>(o)</sup>                | -                                | 36,462,547                                     | 135,353                               | -                                   | 1,102   | 36,599,002                       |
| TH Lot Development #1 Aggregator LP <sup>(p)</sup>             | -                                | 11,192,801                                     | 119,070                               | -                                   | 969   | 11,312,840                       |
| TT Multi Family Residential #1<br>Aggregator LP <sup>(q)</sup> | -                                | 8,579,299                                      | 98,825                                | -                                   | 804   | 8,678,928                        |
| TH PrefEq LP <sup>(r)</sup>                                    | -                                | 6,459,971                                      | 243,233                               | -                                   | 1,979   | 6,705,183                        |
| <b>Total</b>   | <b>\$ 79,733,080</b>             | <b>\$ 86,009,921</b>                           | <b>\$ 7,996,557</b>                   | <b>\$ 3,453,467</b>                 | <b>\$ (511,467)</b>                             | <b>\$ 176,681,558</b>            |

|  | Balance,<br>December 31,<br>2019 | Additions to/<br>(disposals of)<br>investments | Unrealized<br>change in<br>fair value | Realized<br>change in<br>fair value | Impact of<br>foreign<br>exchange<br>translation | Balance,<br>December 31,<br>2020 |
|--|----------------------------------|--|---------------------------------------|-------------------------------------|---|----------------------------------|
| TT/M Apartment Fund<br>Blocker LP <sup>(a)</sup> | \$ 906,030                       | \$ (441,260)                                   | \$ 94,730                             | \$ -                                | \$ (22,643)                                     | \$ 536,857                       |
| Trez Caldwell Station LP <sup>(b)</sup>          | 6,951,082                        | 5,180,873                                      | 774,097                               | -                                   | (176,090)                                       | 12,729,962                       |
| Trez Forman 1624/17 LLC <sup>(c)</sup>           | 11,435,551                       | (12,306,221)                                   | -                                     | 1,154,382                           | (283,712)                                       | -                                |
| Trez Avilla Meadows LP <sup>(d)</sup>            | 4,252,425                        | 599,240  | 398,233                               | -                                   | (103,943)                                       | 5,145,955                        |
| Trez Shops at Broad LP <sup>(e)</sup>            | 22,207,734                       | (6,622,301)                                    | 1,430,002                             | -                                   | (510,199)                                       | 16,505,236                       |
| Trez Blue Diamond LP <sup>(f)</sup>              | 33,603,837                       | (14,595,127)                                   | 2,289,118                             | -                                   | (778,304)                                       | 20,519,524                       |
| Trez McGill LP <sup>(g)</sup>                    | -                                | 15,832,768                                     | 5,024                                 | -                                   | (252)   | 15,837,540                       |
| Trez Capital (2017) Nominee LP <sup>(h)</sup>    | -                                | 8,116,234                                      | 359,843                               | -                                   | (18,071)  | 8,458,006                        |
| <b>Total</b>                                     | <b>\$ 79,356,659</b>             | <b>\$ (4,235,794)</b>                          | <b>\$ 5,351,047</b>                   | <b>\$ 1,154,382</b>                 | <b>\$ (1,893,214)</b>                           | <b>\$ 79,733,080</b>             |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 6. Investments held at fair value (continued):

- (a) During 2018, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust US (Canadian\$) Sub-Trust, made an investment in TT/M Apartment Fund Blocker LP in which it holds a 65.6% interest. TT/M Apartment Fund Blocker LP has entered into two real estate projects in Texas with an established property developer 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.
- (b) During 2018, The Trust made an investment in Trez Caldwell Station LP in which it held a 51% interest as at December 31, 2021 (2020 – 51%). 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. The underlying loans were paid out during 2021 and all capital was returned to investors in full (2020 - \$19,498,899 USD).
- (c) During 2019, the Trust made an investment in Trez Avilla Meadows LP in which it holds a 37% interest as at December 31, 2021 (2020 – 9%). Trez Avilla Meadows LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$54,945,152 USD as at December 31, 2021 (2020 - \$89,379,586 USD).
- (d) During 2019, the Trust made an investment in Trez Shops at Broad LP in which it holds a 36% interest as at December 31, 2021 (2020 – 46%). Trez Shops at Broad LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$56,260,191 USD as at December 31, 2021 (2020 - \$58,044,735 USD).
- (e) During 2019, the Trust made an investment in Trez Blue Diamond LP in which it holds a 31% interest as at December 31, 2021 (2020 – 29%). Trez Blue Diamond LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$9,251,383 USD as at December 31, 2021 (2020 - \$59,513,598 USD).
- (f) During 2020, the Trust made an investment in Trez Capital McGill LP in which it held a 86% interest as at December 31, 2021 (2020 – 86%). Trez Capital McGill LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. The underlying loans were paid out during 2021 and all capital was returned to investors in full (2020 - \$16,230,758 USD).
- (g) During 2020, the Trust made an investment in Trez Capital (2017) Nominee LP in which it holds a 40% interest as at December 31, 2021 (2020 – 27%). Trez Capital (2017) Nominee LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$18,666,331 USD as at December 31, 2021 (2020 - \$47,004,196 USD).
- (h) During 2021, the Trust made an investment in Trez Capital Winston LP in which it holds a 29% interest as at December 31, 2021. Trez Capital Winston LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$73,634,341 USD as at December 31, 2021.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 6. Investments held at fair value (continued):

- (i) During 2021, the Trust made an investment in Trez Capital Logistics LP in which it holds a 26% interest as at December 31, 2021. Trez Capital Logistics LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$39,132,119 USD as at December 31, 2021.
- (j) During 2021, the Trust made an investment in Trez Capital Block 40 LP in which it holds a 24% interest at December 31, 2021. Trez Capital Block 40 LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$50,904,666 USD as at December 31, 2021.
- (k) During 2021, the Trust made an investment in Trez Capital Manhattan Bridge LP in which it holds a 40% interest at December 31, 2021. Trez Capital Manhattan Bridge LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$135,760,634 USD as at December 31, 2021.
- (l) During 2021, the Trust made an investment in Trez Capital Alloro LP in which it holds a 50% interest at December 31, 2021. Trez Capital Alloro LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$3,548,054 USD as at December 31, 2021.
- (m) During 2021, the Trust made an investment in Trez Capital Brooklyn Bridge LP in which it holds a 27% interest at December 31, 2021. Trez Capital Brooklyn Bridge LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. Total assets of the entity are \$176,972,228 USD as at December 31, 2021.
- (n) During 2021, the Trust made an investment in Trez Capital Land T LP in which it held a 48% interest. Trez Capital Land T LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution. The underlying loans were paid out during 2021 and all capital was returned to investors in full.
- (o) During 2021, the Trust made an investment in TH Self Storage #1 Aggregator LP. The Trust owns preferred LP units, which do not provide an ownership interest. TH Self Storage #1 Aggregator LP was established to hold real estate projects in the United States and investments made by the Trust earn fixed monthly interest income. Total assets of the entity are \$48,872,809 USD as at December 31, 2021.
- (p) During 2021, the Trust made an investment in TH Lot Development #1 Aggregator LP. The Trust owns preferred LP units, which do not provide an ownership interest. TH Self Storage #1 Aggregator LP was established to hold real estate projects in the United States and investments made by the Trust earn fixed monthly interest income. Total assets of the entity are \$16,715,674 USD as at December 31, 2021.
- (q) During 2021, the Trust made an investment in TT Multi Family Residential #1 Aggregator LP. The Trust owns preferred LP units, which do not provide an ownership interest. TT Multi Family Residential #1 Aggregator LP was established to hold real estate projects in the United States and investments made by the Trust earn fixed monthly interest income. Total assets of the entity are \$15,678,799 USD as at December 31, 2021.
- (r) During 2021, the Trust made an investment in TH Pref Eq LP. The Trust owns preferred LP units, which do not provide an ownership interest. TH Pref Eq LP was established to hold real estate projects in the United States and investments made by the Trust earn fixed monthly interest income. Total assets of the entity are \$7,946,812 USD as at December 31, 2021.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 7. Investments in associate:

The summary below lists the Trust's investments in associate, their names, types, and percentage of ownership:

|                                     | Balance,<br>December 31,<br>2020 | Net<br>contributions<br>(distributions) | Share of<br>earnings<br>(loss) | Impact of<br>foreign<br>exchange<br>translation | Balance,<br>December 31,<br>2021 |
|-------------------------------------|----------------------------------|---|--------------------------------|---|----------------------------------|
| UC Aspen Place LP (66.4% interest)  | \$ -                             | \$ 8,684,562                            | \$ (2,725,222)                 | \$ (22,178)                                     | \$ 5,937,162                     |
| HT N Ave SS LP:<br>(37.5% interest) | 4,305,400                        | (6,320,063)                             | 2,030,785                      | (16,122)  | -                                |
| HT Country Club SS LP               | -                                | (57,472)                                | 57,008                         | 464   | -                                |
| <b>Total</b>                        | <b>\$ 4,305,400</b>              | <b>\$ 2,307,027</b>                     | <b>\$ (637,429)</b>            | <b>\$ (37,836)</b>                              | <b>\$ 5,937,162</b>              |

The investment in UC Aspen Place LP has been entered into with an established property developer in Oklahoma to enable the Trust to benefit from local real estate expertise while pursuing returns from its investment. The underlying assets of the associate are being developed with the counterparty acting as lead developer.

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

(a) As at December 31, 2021, 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 Canadian dollars in accordance with the Offering Memorandum of the Trust, dated February 10, 2018.

On January 1, 2018, as part of the Reorganization the USD Trust fully transferred all Canadian dollar denominated units to the Trust.

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 first anniversary.

| CDN Class A units                                | 2021             |                      | 2020             |                      |
|--|------------------|----------------------|------------------|----------------------|
|  | Number           | Amount               | Number           | Amount               |
| Issued and outstanding, beginning of year        | 6,122,448        | \$ 61,047,608        | 5,598,927        | \$ 55,938,690        |
| Issued for cash                                  | 1,489,174        | 14,891,740           | 1,308,861        | 13,088,608           |
| Issued for reinvested distributions              | 212,817          | 2,128,171            | 214,174          | 2,141,739            |
| Redeemed for cash                                | (1,815,277)      | (18,152,767)         | (854,446)        | (8,544,464)          |
| Transfer between classes                         | (222,008)        | (2,220,084)          | (145,068)        | (1,450,676)          |
| Decrease in net assets                           | -                | (26,821)             | -                | (126,289)            |
| Issued for top up                                | -                | -                    | -                | -                    |
| Consolidation of Units                           | -                | -                    | -                | -                    |
| Issued and outstanding, end of year              | 5,787,154        | 57,667,847           | 6,122,448        | 61,047,608           |
| Accumulated other comprehensive<br>Income (loss) | -                | (2,810)              | -                | (6,827)              |
| Cumulative IFRS 9 Stage 1 provisions             | -                | 206,500              | -                | 189,980              |
|  | <b>5,787,154</b> | <b>\$ 57,871,537</b> | <b>6,122,448</b> | <b>\$ 61,230,761</b> |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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

(a) (continued):

| CDN Class F units   | 2021        |                | 2020        |                |
|---|-------------|----------------|-------------|----------------|
|   | Number      | Amount         | Number      | Amount         |
| CDN Class F Units issued and outstanding, beginning of year | 42,215,229  | \$ 420,848,012 | 38,259,097  | \$ 382,157,474 |
| Issued for cash   | 16,904,395  | 169,043,950    | 8,917,797   | 89,177,969     |
| Issued for reinvested distributions                         | 1,480,431   | 14,804,311     | 1,433,394   | 14,333,945     |
| Redeemed for cash   | (8,347,547) | (83,475,470)   | (6,368,821) | (63,688,213)   |
| Transfer between classes                                    | (394,413)   | (3,944,136)    | (26,238)    | (262,377)      |
| Decrease in net assets                                      | -           | (240,165)      | -           | (870,786)      |
| Issued for top up   | -           | -              | -           | -              |
| Consolidation of Units                                      | -           | -              | -           | -              |
| Issued and outstanding, end of year                         | 51,858,095  | 517,036,502    | 42,215,229  | 420,848,012    |
| Accumulated other comprehensive Income (loss)               | -           | (21,298)       | -           | (47,073)       |
| Cumulative IFRS 9 Stage 1 provision                         | -           | 1,565,741      | -           | 1,309,943      |
|   | 51,858,095  | \$ 518,580,945 | 42,215,229  | \$ 422,110,882 |

| CDN Class I units                             | 2021        |                | 2020       |                |
|---|-------------|----------------|------------|----------------|
|   | Number      | Amount         | Number     | Amount         |
| Issued and outstanding, beginning of year     | 27,395,237  | \$ 273,167,967 | 24,726,813 | \$ 247,048,820 |
| Issued for cash                               | 8,870,515   | 88,705,152     | 2,763,491  | 27,634,910     |
| Issued for reinvested distributions           | 294,702     | 2,947,015      | 216,404    | 2,164,043      |
| Redeemed for cash                             | (3,196,900) | (31,969,000)   | (482,777)  | (4,827,770)    |
| Transfer between classes                      | 616,422     | 6,164,220      | 171,306    | 1,713,053      |
| Decrease in net assets                        | -           | (157,365)      | -          | (565,089)      |
| Issued for top up                             | -           | -              | -          | -              |
| Consolidation of Units                        | -           | -              | -          | -              |
| Issued and outstanding, end of year           | 33,979,976  | 338,857,989    | 27,395,237 | 273,167,967    |
| Accumulated other comprehensive income (loss) | -           | (12,987)       | -          | (30,547)       |
| Cumulative IFRS 9 Stage 1 provision           | -           | 954,759        | -          | 850,077        |
|   | 33,979,976  | \$ 339,799,761 | 27,395,237 | \$ 273,987,497 |

| CDN Total units                               | 2021         |                | 2020        |                |
|---|--------------|----------------|-------------|----------------|
|   | Number       | Amount         | Number      | Amount         |
| Issued and outstanding, beginning of year     | 75,732,914   | \$ 755,063,587 | 68,584,837  | \$ 685,144,984 |
| Issued for cash                               | 27,264,084   | 272,640,842    | 12,990,149  | 129,901,487    |
| Issued for reinvested distributions           | 1,987,950    | 19,879,497     | 1,863,972   | 18,639,727     |
| Redeemed for cash                             | (13,359,724) | (133,597,237)  | (7,706,044) | (77,060,447)   |
| Transfer between classes                      | -            | -              | -           | -              |
| Decrease in net assets                        | -            | (424,351)      | -           | (1,562,164)    |
| Issued for top up                             | -            | -              | -           | -              |
| Consolidation of Units                        | -            | -              | -           | -              |
| Issued and outstanding, end of year           | 91,625,224   | 913,562,338    | 75,732,914  | 755,063,587    |
| Accumulated other comprehensive income (loss) | -            | (37,095)       | -           | (84,447)       |
| Cumulative IFRS 9 Stage 1 provision           | -            | 2,727,000      | -           | 2,350,000      |
|   | 91,625,224   | \$ 916,252,243 | 75,732,914  | \$ 757,329,140 |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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

- (b) The Trust distributes to its Unitholders taxable income including taxable capital gains.

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 at least equal 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 10.

For the year ended December 31, 2021, the Trust has declared distributions totaling \$55,229,530 (2020 - \$52,578,939).

For the year ended December 31, 2021, the taxable income of the Trust was \$ 58,613,127 (2020 - \$50,469,149) and the accounting income of the Trust attributable to holders of redeemable units, before distributions was \$55,229,530 (2020 - \$52,578,939). In accordance with its trust indenture, the Trust distributed an amount equal to accounting income. The difference of \$3,383,597 (2020 - \$2,109,790) between accounting income and taxable income is considered as notional distribution for tax purposes (2020 - return of capital for tax purposes).

The distribution declared and payable as at December 31, 2021 was \$2,990,952 (2020 - \$2,994,891) and distributed to the Unitholders subsequent to December 31, 2021.

## 9. Promissory notes receivable:

|  | 2021       | 2020         |
|--|------------|--------------|
| Unsecured, interest free promissory note due on demand from an affiliated entity <sup>(a)</sup>  | \$ 488,946 | \$ 965,877   |
| USD demand promissory note due from TC Tuscan Heights Master, LP, bearing interest at 12% per annum  | -          | 1,273,561    |
| USD unsecured, interest at 4% per annum effective January 1, 2021, - promissory note due on demand from a private affiliated entity <sup>(b)</sup> | -          | 725,237      |
|  | \$ 448,946 | \$ 2,964,675 |

- (a) During 2017, a Manager affiliated entity foreclosed on 66 single-family lots in Texas. The affiliated entity has a note payable to the Trust which is being repaid as lots are sold to home builders.

- (b) During 2021, the Manager purchased a defaulted mortgage from the Trust and, in return, the Trust received an unsecured, interest free, due on demand, note receivable in the amount of the outstanding mortgage. The Manager agreed to the terms of the promissory note to provide financial support to the Trust.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 10. 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 foreign exchange gains and losses, 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 realized by the Trust for a particular taxation year may be made payable to Unitholders and is thus required to be included in computing Unitholders' income for Canadian tax purposes.

The Trust holds certain investments in joint ventures based in the U.S. These investments in associates and joint ventures are held by wholly-owned subsidiaries, which are required to pay income taxes to the U.S. Internal Revenue Service based on their determination of taxable income for U.S. tax purposes. Accordingly, current income tax recognized in the consolidated statement of comprehensive loss is based on the subsidiaries U.S. 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.

The Trust intends to distribute at least 100% of the Trust's taxable income, including foreign exchange gains/losses for the 2021 fiscal period.

## 11. 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, 2021, the Trust was participating in forward exchange contracts to sell Canadian dollars totaling \$843,141,021 (2020 - \$696,029,965). The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2021 is an asset of \$446,829 (2020 - asset of \$8,282,465). The foreign currency derivatives are entered directly by the Trust with third party financial institutions. As at December 31, 2021, the margin deposit on foreign exchange contracts, which is considered a restricted cash balance, totalled \$27,953,801 (2020 - \$19,914,636).

## 12. 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 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 12. Related party transactions and balances (continued):

- 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; and
  - 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.

### (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 Confidential 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 the year ended December 31, 2021, the Trust incurred management and incentive fees before waivers in the amount of \$19,424,972 (2020 - \$19,372,639). For the year ended December 31, 2021, the Manager has agreed to waive incentive fees in the amount of \$5,724,830 (2020 - \$3,177,594) and management fees of \$3,676,974 (2020 - nil). Any fees waived are no longer collectible in the current or future years. At December 31, 2021, \$1,068,708 (2020 - \$1,156,786) of the current year management fees were due from 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 12. Related party transactions and balances (continued):

(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.

(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 the year ended December 31, 2021, the Trust purchased investments in mortgages of \$90,893,487 (2020 - \$162,061,214) from, and sold investments in mortgages of \$206,119,930 (2020 - \$188,495,553) to entities under common management.

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

The Trust has invested in a mortgage portfolio with a balance at December 31, 2021 of \$704,921,877 (2020 - \$665,470,030), virtually all of which are made on a participation basis with related funds and parties. The Trust has invested in investments held at fair value created to enable the Trust to enter into loan sharing arrangements with US domiciled financial institutions and real estate development. The balance at December 31, 2021 was \$176,681,558 (2020 - \$79,733,080), virtually all of which is made on a participation basis with related parties.

(e) Non-controlling interest:

Included in non-controlling interests on the Consolidated Statement of Financial Position is \$4,331,270 (2020 - \$3,642,065) which is held by entities related under common management. The non-controlling interest relate to the Trust's investments in TC LB LP, TC LB Aspen Meadows LP, TC Bella Vita LP, TC LB Heron Bay, TC LB Royal Pines LP of which non-controlling interest holds 20% interest, investment in TRCH Elm Creek LP of which the non-controlling interest holds 18% interest, and investment in Trez Camperdown LP of which the non-controlling interest holds 15% interest.

During the year ended December 31, 2021, the Trust has allocated \$746,879 (2020 - \$307,385) of net income to the non-controlling interest.

(f) Co-investment in associates:

The Trust has co-invested in associates with a related party by virtue of common management. As at December 31, 2021, the Trust holds 66.4% and the related party holds 16.6% interest in investment in associates.

(g) Transfer of investments in associates:

During 2021, The Trust transferred an interest in four investments in associates to a related party. A gain on transfer of \$4,329,684 was realized.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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Year ended December 31, 2021

## 13. Secured borrowing:

|  | 2021                  | 2020                  |
|--|-----------------------|-----------------------|
| U.S. dollar indebtedness from a private company with maximum indebtedness of \$100,000,000 US dollars, bearing interest at LIBOR plus 7.0% per annum compounded and payable monthly and with maturity date of November 16, 2022 <sup>(a)</sup> | \$ 83,666,532         | \$ 84,305,859         |
| U.S. dollar indebtedness from a private company with maximum indebtedness of \$115,000,000 US dollars, bearing interest at Prime plus 3.25% per annum compounded and payable monthly and with maturity date of November 8, 2022 <sup>(b)</sup> | 77,236,378            | 69,232,192            |
| U.S. dollar indebtedness from a private company with a maximum indebtedness of \$22,500,000 US dollars, bearing interest at LIBOR plus 400 basis points with maturity date of August 5, 2022 <sup>(c)</sup>                                    | 12,322,549            | -                     |
| <b>Total</b>   | <b>\$ 173,225,459</b> | <b>\$ 153,538,051</b> |

- a) In 2018, a subsidiary of the Trust, Trez Capital (2018) Nominee LP, has entered into a senior secured term loan facility for available proceeds up to US\$100,000,000, bearing interest at lesser of (i) LIBOR rate plus 5.25%; or (ii) maximum rate, defined as the highest lawful and non-usurious rate of interest applicable.

In November 2021, the loan was renewed bearing interest of one month LIBOR with of a floor of 0.25%, plus 7.00% per annum maturing November 16, 2022. As at December 31, 2021, the amount outstanding on the term loan is \$83,666,532 (2020 - \$84,305,859). 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:

- (i) Borrower shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the sum of (a) \$15,000,000, plus (b) fifty percent (50%) of Borrower's net income as of the most recently ended trailing 12-month period, minus (c) the aggregate amount of payments made by Borrower to permanently reduce the Term Loans as of such date.
- (ii) The Trust shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the greater of (i) \$100,000,000; and (ii) and amount equal to all of the Trust's outstanding indebtedness (including, without limitation, all guaranties).
- (iii) The Trust shall not permit the Debt to Equity ratio to exceed 2.00:1.00 as of the last day of any fiscal quarter.

The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2021.

- b) In 2019 a subsidiary of the Trust, Trez Camperdown LP, has entered into a senior secured term loan facility for available proceeds up to US\$115,000,000, bearing interest at Prime plus 3.25%, with a floor of 8.75%, and maturing on the earlier of 3 years from the date of the note or the initial maturity of the underlying loan. As at December 31, 2021, the amount outstanding on the term loan is \$77,236,378

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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

Year ended December 31, 2021

## 13. Secured borrowing (continued):

(2020 - \$69,232,192). The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2021.

- c) In 2021, a subsidiary of the Trust, Trez Capital Avilla Trails LP, has entered into a senior secured term loan facility for available proceeds up to US\$22,500,000, bearing interest at LIBOR plus 400 basis points per annum with maturity date of August 5, 2022. As at December 31, 2021, the amount outstanding on the term loan is \$12,322,549. The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2021.

## 14. 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 values of the investments in mortgages and mortgage syndication liabilities approximate their fair values because the Manager has determined there has been no 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").

| December 31, 2021                                | Carrying value |             | Fair value     |
|--|----------------|-------------|----------------|
|  | Amortized cost | FVTPL       |                |
| <b>Assets not measured at fair value:</b>        |                |             |                |
| Investments in mortgages                         | \$ 719,309,067 | \$ -        | \$ 719,309,067 |
| Due from related parties                         | 4,286,193      | -           | 4,286,193      |
| Cash and cash equivalents                        | 165,364,013    | -           | 165,364,013    |
| Promissory notes receivable                      | 488,946        | -           | 488,946        |
| Other assets                                     | 15,833,746     | -           | 15,833,746     |
| <b>Assets measured at fair value:</b>            |                |             |                |
| Investments held at fair value                   | -              | 176,681,558 | 176,681,558    |
| Foreign currency derivatives and margin deposits | -              | 28,400,630  | 28,400,630     |

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 14. Financial instruments and risk management (continued):

### (a) Fair values (continued):

| December 31, 2021  | Carrying value |       | Fair value     |
|--|----------------|-------|----------------|
|  | Amortized cost | FVTPL |                |
| <b>Financial liabilities not measured at fair value:</b> |                |       |                |
| Secured borrowing  | \$ 173,225,459 | \$ -  | \$ 173,225,459 |
| Mortgage syndication liabilities                         | 11,046,862     | -     | 11,046,862     |
| Distributions payable to holders of redeemable units     | 2,990,952      | -     | 2,990,952      |
| Due to related parties                                   | 1,650,421      | -     | 1,650,421      |
| Accounts payable and accrued liabilities                 | 3,129,415      | -     | 3,129,415      |
| Loan Payable   | 11,280,302     | -     | 11,280,302     |
| Interest Payable   | 31,935         | -     | 31,935         |

| December 31, 2020                                | Carrying value |            | Fair value     |
|--|----------------|------------|----------------|
|  | Amortized cost | FVTPL      |                |
| <b>Assets not measured at fair value:</b>        |                |            |                |
| Investments in mortgages                         | \$ 689,816,003 | \$ -       | \$ 689,816,003 |
| Due from related parties                         | -              | -          | -              |
| Cash and cash equivalents                        | 127,101,355    | -          | 127,101,355    |
| Promissory notes receivable                      | 2,964,675      | -          | 2,964,675      |
| Other assets                                     | 2,097,803      | -          | 2,097,803      |
| <b>Assets measured at fair value:</b>            |                |            |                |
| Investments held at fair value                   | -              | 79,733,080 | 79,733,080     |
| Foreign currency derivatives and margin deposits | -              | 28,197,101 | 28,197,101     |

| December 31, 2020  | Carrying value |       | Fair value     |
|--|----------------|-------|----------------|
|  | Amortized cost | FVTPL |                |
| <b>Financial liabilities not measured at fair value:</b> |                |       |                |
| Secured borrowing  | \$ 153,538,051 | \$ -  | \$ 153,538,051 |
| Mortgage syndication liabilities                         | 19,880,979     | -     | 19,880,979     |
| Management fees payable                                  | 1,156,786      | -     | 1,156,786      |
| Distributions payable to holders of redeemable units     | 2,994,891      | -     | 2,994,891      |
| Due to related parties                                   | 8,658          | -     | 8,658          |
| Accounts payable and accrued liabilities                 | 6,194,165      | -     | 6,194,165      |

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 approximates 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 14. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

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

Typically, the fair value of these investments approximates their carrying value given the investments consist of short-term mortgages and the mortgages have variable interest rates. A 0.25% increase in the discount rate used in the discounted cash flow would decrease the fair value of the investments by approximately \$230,967 (2020 – 0.25% increase - \$157,361). A 0.25% decrease in the discount rate used in the discounted cash flow would increase the fair value of the investments by approximately \$1,004,381 (2020 – 0.25% decrease – \$157,361).

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").

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

| 2021                           | Level 1 | Level 2 | Level 3        | Total          |
|--------------------------------|---------|---------|----------------|----------------|
| Investments held at fair value | \$      | \$      | \$ 176,681,558 | \$ 176,681,558 |

| 2020                           | Level 1 | Level 2 | Level 3       | Total         |
|--------------------------------|---------|---------|---------------|---------------|
| Investments held at fair value | \$ -    | \$ -    | \$ 79,733,080 | \$ 79,733,080 |

There were no transfers between levels during 2021 (2020 – nil).

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

## 14. Financial instruments and risk management (continued):

### (a) Fair values (continued):

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

A reconciliation of Level 3 assets at December 31, 2021 is as follows:

|   |    |             |
|---|----|-------------|
| Investments held at fair value, December 31, 2019 | \$ | 79,356,659  |
| Additions to / (disposals of) investments         |    | (4,235,794) |
| Unrealized change in fair value                   |    | 5,351,047   |
| Realized change in fair value                     |    | 1,154,382   |
| Impact of foreign exchange translation            |    | (1,893,214) |
| Investments held at fair value, December 31, 2020 |    | 79,733,080  |
| Additions to / (disposals of) investments         |    | 86,009,921  |
| Unrealized change in fair value                   |    | 7,996,557   |
| Realized change in fair value                     |    | 3,453,467   |
| Impact of foreign exchange translation            |    | (511,467)   |
| Investments held at fair value, December 31, 2021 | \$ | 176,681,558 |

The key valuation techniques used in measuring the fair values of special purpose entities include:

| Valuation technique  | Significant unobservable inputs            | Inter-relationship between significant unobservable inputs and fair value measurement              |
|----------------------|--|--|
| Discounted cash flow | Discount rate<br>Probability of cash flows | The estimated fair value would increase (decrease) with changes in significant unobservable inputs |

#### (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 and cash equivalents, interest receivable, promissory notes receivable, accounts payable and accrued liabilities, secured borrowing, accounts payable and accrued liabilities, due to related parties, management fees payable, and distribution 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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## 14. 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 year ended December 31, 2021.

### (b) Financial risk management:

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

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

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

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

#### (i) Credit risk:

Credit risk is the risk that 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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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

Year ended December 31, 2021

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## 14. Financial instruments and risk management (continued):

### (b) Financial risk management (continued):

#### (i) Credit risk (continued):

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2021, is represented by the respective carrying amounts of the relevant financial assets in the Statement of Financial Position.

#### (ii) Liquidity risk:

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

The Trust's liquidity requirements relate to its obligations under its secured borrowing, loans payable, accounts payable and accrued liabilities, mortgage syndication liabilities, distributions payable to holders of redeemable units, redeemable units, 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).

As at December 31, 2021, 52.42% of the Trust's mortgage portfolio, being \$369,540,562, is due on or before December 31, 2022 (2020 - 60.63% or \$403,485,039 due before December 31, 2021). There is no mortgage that was overdue on December 31, 2021 (2020 – nil)

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.

# TREZ CAPITAL YIELD TRUST US (CANADIAN \$)

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

Year ended December 31, 2021

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## 14. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(iii) Market risk (continued):

(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 8, 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, 2021, 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 \$1,416,219 (2020 - \$1,094,505) arising from income generated on the Trust's cash deposits and higher interest income generated on variable rate mortgage investments.

(B) Currency risk:

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

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange on the Trust's obligation to redeem Canadian series units in Canadian dollars as explained in Note 11.

(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.

## 15. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2021 was \$913,562,338 (2020 - \$755,063,587).

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.