



Consolidated Financial Statements
(Expressed in United States dollars)

TREZ CAPITAL YIELD TRUST US

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

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

- the consolidated statement of financial position as at December 31, 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.

Basis for Opinion

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 20, 2022

TREZ CAPITAL YIELD TRUST US

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

December 31, 2021, with comparative information for 2020

	Notes	2021	2020
Assets			
Cash and cash equivalents		\$ 32,732,063	\$ 27,363,318
Restricted cash		-	2,106,847
Due from related parties		1,458,848	792,560
Investments in mortgages	4	91,294,614	100,603,374
Investments held at fair value	5	43,938,853	28,728,215
Investments in associates	6	1,174,452	-
Promissory notes receivable	8	299,605	587,359
Other assets		-	3,327
		\$ 170,898,435	\$ 160,185,000

Liabilities and Net Assets Attributable to Holders of Redeemable Units

Accounts payable and accrued liabilities		\$ 354,724	\$ 82,952
Mortgage syndication liabilities	4(a)	6,810,048	7,730,164
Management and incentive fees payable	10(a)	-	1,492,120
Distributions payable to holders of redeemable units	7(b)	320,547	359,634
		7,485,319	9,664,870
Redeemable units, representing net assets attributable to holders of redeemable units	7	163,413,116	150,520,130
Total liabilities and net assets attributable to holders of redeemable units and equity		\$ 170,898,435	\$ 160,185,000

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

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

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

	Notes	2021	2020
Revenue:			
Interest income		\$ 9,633,012	\$ 14,578,549
Interest expense on mortgage syndication liabilities		(565,862)	(328,494)
Other income		162,823	95,342
		9,229,973	14,345,397
Expenses:			
Management and incentive fees	10(a)	1,601,343	4,055,642
General and administrative		835,599	515,543
Provision for mortgage losses	4(c)	36,000	(45,975)
		2,472,942	4,525,210
Loss from associate		(85,588)	-
Fair value gain on investments held at fair value	5	3,667,796	1,938,824
		10,339,239	11,759,011
Financing costs:			
Interest expense		-	312,771
Distributions to holders of redeemable units	7(b)	10,375,239	11,521,995
		10,375,239	11,834,766
Net comprehensive loss attributable to holders of redeemable units			
		\$ (36,000)	\$ (75,755)

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

TREZ CAPITAL YIELD TRUST US

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

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

	2021	2020
Balance, beginning of the year	\$ 150,520,130	\$ 142,070,574
Loss attributable to holders of redeemable units	(36,000)	(75,755)
Contributions and redemptions:		
Issuance of units	40,652,744	24,817,266
Reinvestment of distributions on redeemable units	6,490,924	7,064,969
Redemptions	(34,214,682)	(23,356,924)
	12,928,986	8,525,311
Balance, end of year	\$ 163,413,116	\$ 150,520,130

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

TREZ CAPITAL YIELD TRUST US

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

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

	2021	2020
Cash provided by (used in):		
Operations:		
Net comprehensive loss	\$ (36,000)	\$ (75,755)
Items not involving cash:		
Interest income earned	(9,067,150)	(14,250,055)
Fair value gain on investments held at fair value	(3,667,796)	(1,938,824)
Loss from associates	85,588	-
Distributions to holders of redeemable units	10,375,239	11,521,995
Provision for mortgage losses	36,000	(45,975)
Interest received	3,719,330	5,720,297
Changes in non-cash operating working items:		
Other assets	3,327	(1,426)
Management and incentive fees payable	(1,492,120)	86,575
Accounts payable and accrued liabilities	271,772	(140,445)
	228,190	876,387
Investments:		
Funding of investments in mortgages	(142,013,360)	(88,105,193)
Repayments on investments in mortgages	155,713,824	165,111,774
Contributions to investments held at fair value	(94,272,695)	(22,150,964)
Distributions from investments held at fair value	82,729,853	9,954,966
Contributions to investments in associates	(1,717,806)	-
Distributions from investments in associates	457,766	-
Contributions (distributions) to non-controlling interests	-	(5,255,921)
Repayments on promissory note receivable	287,754	141,573
	1,185,336	59,696,235
Financing:		
Distributions paid	(3,923,402)	(5,017,148)
Issuance of units	40,652,744	24,817,266
Redemptions	(34,214,682)	(23,356,924)
Increase (decrease) in bank indebtedness	-	(29,183,835)
Increase (decrease) in due to related parties	1,440,559	(2,052,924)
	3,955,219	(34,793,565)
Increase in cash and cash equivalents	5,368,745	25,779,057
Cash and cash equivalents, beginning of year	27,363,318	1,584,261
Cash and cash equivalents, end of year	\$ 32,732,063	\$ 27,363,318

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

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

1. Nature of business:

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

Trez Capital Fund Management Limited Partnership is the Trust’s manager (the “Manager”), Trez Capital Limited Partnership is the mortgage broker (the “Mortgage Broker”) and Computershare Trust Company of Canada is the trustee (the “Trustee”) of the Trust.

The Trust has been created for the purpose of generating a stream of income from interests acquired in a portfolio of mortgages related to any and all types of real property and from equity profit sharing arrangements through limited partnerships within the United States (“U.S.”).

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

On January 1, 2018, pursuant to the Reorganization, the three series of Canadian dollar denominated units of the Trust, being the Series A (Canadian dollars) Units, Series F (Canadian dollars) Units and Series I (Canadian dollars) Units (collectively, the “CAD Units”) were redeemed and exchanged for Units of a corresponding series of the Canadian Trust. Accordingly, the prior holders of Canadian dollar denominated Units now hold units of the Canadian Trust and the holders of the U.S. dollar denominated units of the U.S. Trust continue to hold such units in the Trust. A proportionate interest of 56.36% of the Trust’s total assets and liabilities were transferred to the Canadian Trust as part of the Reorganization.

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

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.

As a result of the pandemic, the Trust temporarily suspended all redemptions in order to preserve the liquidity of the Trust. Redemptions were suspended from March 23, 2020 until October 8, 2020. Redemptions were reinstated on October 9, 2020 and there were no further impacts on unit subscriptions, redemptions or regular monthly distributions as a direct result of the pandemic.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

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 restricted cash, investments held at fair value, and foreign currency derivatives which are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

The preparation of consolidated financial statements requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements are related to investment in mortgages. 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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

2. Basis of preparation:

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

(ii) Investments at fair value:

Included in the investments at fair value are investment interests in Special Purpose Entities. These allow the Trust to participate in loan sharing arrangements with third-party U.S. based financial institutions. Judgment is applied in assessing whether the Trust exercises control, joint control, significant influence or none of the above over the Special Purpose Entities.

Control is defined as the power to govern the financial and operating decisions of an entity so as to obtain benefits from its activities, and significant influence is defined as the power to participate in the financial and operating decisions of the Special Purpose Entities. The Trust has determined for these Special Purpose Entities that the Trust has neither control, joint control or significant influence as the Trust has no ability to control or influence any of the relevant activities of the Special Purpose Entities and has therefore measured the investments at fair value in accordance with IFRS 9.

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.

Also included in the investments at fair value are investment interests in real estate development and lot banking projects.

Judgment is applied in assessing whether the Trust exercises control, joint control, significant influence or none of the above over the real estate development and lot banking projects. 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 entities.

The Trust has determined for these entities 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 and has therefore measured the investments at fair value in accordance with IFRS 9.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies:

(a) Basis of presentation:

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

(i) Subsidiaries:

These 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. These consolidated financial statements of the subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

These 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 these consolidated financial statements.

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

	Place of registration	% of ownership
Trez Capital Yield Trust US Sub-Trust	British Columbia	100%
Trez Capital Yield Trust US Equities Limited Partnership	British Columbia	100%
Trez Capital Yield Trust US Blocker Corporation	Delaware	100%

The principal business activity of Trez Capital Yield Trust US Sub-Trust is to carry out carry out the investment activity of the Trust.

The principal business activity of Trez Capital Yield Trust US Equities Limited Partnership and Trez Capital Yield Trust US Blocker Corporation is investment in real estate development and lot banking projects.

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.

(ii) 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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(a) Basis of presentation (continued):

(ii) Investments in associates (continued):

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

Significant accounting policies of the underlying operating partnerships involved in real estate development projects classified as investments in joint ventures or associates are as follows:

- Properties under development:

Properties under development are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less cost to complete the development and selling costs. Costs include all direct development costs and capitalized carrying costs related to holding the property under development, including borrowing costs. The cost of sale of a property or unit is allocated on the basis of the estimated total cost of the project prorated by the selling price of the property or unit over the anticipated sales proceeds from the entire project.

- Sales revenue:

Revenue from the sale of properties under development is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, and all material conditions of the sales contract have been met, and at which time all proceeds are received or collectability is reasonably assured.

- Other revenues:

The operating partnerships may earn other revenue such as performance fees based on the specific contractual terms of each partnership. These revenues are recorded as earned in accordance with the terms of the respective partnership agreement.

(iii) Investments held at fair value:

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

During 2021, the Trust commenced investment in real estate development and lot banking projects.

(b) Cash and cash equivalents:

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

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(c) Promissory notes receivable:

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

(d) Redeemable units:

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

(e) 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.

(f) Distributions on redeemable units:

Distributions to Unitholders on each series of redeemable units are made on a monthly basis, in arrears. The total distributions to be made in respect of the December 31 year-end will equal at least 100% of the Trust's taxable income for the year. Distributions on redeemable units are treated as an expense within the consolidated statement of comprehensive loss, following the units' classification as liabilities. Distributions are accrued in the period to which they relate.

(g) 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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

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

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

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

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

The Trust has classified its financial instruments as follows:

	Classification
Financial assets:	
Cash and cash equivalents	Amortized cost
Restricted cash	FVPTL
Other assets	Amortized cost
Due from related parties	Amortized cost
Investments in mortgages	Amortized cost
Investments held at fair value	FVPTL
Promissory notes receivable	Amortized cost
Financial liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Mortgage syndication liabilities	Amortized cost
Management and incentive fees payable	Amortized cost
Distributions payable to holders of redeemable units	Amortized cost
Redeemable units, representing net assets attributable to holders of redeemable units	Amortized cost

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) 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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(ii) Impairment (continued):

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgment.

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

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

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

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

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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(ii) Impairment (continued):

The application of the concept uses three inputs to measure ECLs for commitments and mortgages receivable classified as Stage 1: probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). These inputs are determined at each reporting period using historical data and current conditions.

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

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

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

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(iii) Derecognition of financial assets and liabilities:

(A) Financial assets:

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

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

If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized. In transactions in which the Trust neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Trust continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

(B) Financial liabilities:

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

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(g) Financial instruments (continued):

(iv) Loan modifications:

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

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

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

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

(h) Income taxes:

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

The Trust holds certain investments in associates and joint ventures based in the 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 income (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.

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

3. Significant accounting policies (continued):

(h) Income taxes (continued):

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantively enacted tax rates that are expected to be in effect when the underlying items are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred income tax assets, such as non-capital loss 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 U.S. tax assets and liabilities.

(i) New standards issued but not yet effective:

In August 2021, the IASB published the Interest Rate Benchmark Reform – Phase 2, which amends 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 for the year ending December 31, 2021. The Trust assessed the impact of the amendments related to the interest rate benchmark reform and determined there was no material effect on its consolidated financial statements for the year ending 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	63	\$ 66,268,875	61	\$ 84,421,610
Commercial	5	9,273,986	-	-
Retail	-	-	5	7,743,179
Mixed use	3	6,763,948	-	-
Other	1	1,962,308	-	-
	72	84,269,117	66	92,164,789
Mortgage syndications		6,810,048		7,730,164
Accrued interest		573,449		1,030,421
Less: Provision for mortgage losses (note 4(c))		(358,000)		(322,000)
Investment in mortgages		\$ 91,294,614		\$ 100,603,374

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

4. Investments in mortgages (continued):

Property location	2021		2020	
	Number	Amount	Number	Amount
Texas	26	\$ 22,671,545	40	\$ 57,941,810
Florida	11	8,996,888	6	7,054,655
Georgia	8	6,094,064	5	4,626,203
North Carolina	3	4,377,322	3	4,442,050
Oregon	1	3,834,588	-	-
Arizona	8	18,639,453	5	6,950,799
Washington	2	4,773,036	2	2,852,281
Idaho	3	885,857	2	603,622
Tennessee	1	8,413,446	1	1,002,827
Kansas	-	-	1	5,557,500
South Carolina	1	203,263	1	1,133,042
Utah	2	1,751,183	-	-
Colorado	1	1,559,608	-	-
Pennsylvania	1	481,606	-	-
Michigan	1	1,194,810	-	-
California	1	329,697	-	-
Ohio	1	200	-	-
Oklahoma	1	62,551	-	-
Total mortgages	72	\$ 84,269,117	66	\$ 92,164,789

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

	2021	2020
Investments in mortgages, beginning of year	\$ 100,603,374	\$ 183,232,553
Provision for expected credit losses, net of recoveries (note 4(c))	(36,000)	45,975
Funding of investments in mortgages	142,013,360	88,105,193
Interest capitalized to investments in mortgages	5,804,792	8,762,797
Repayments of investments in mortgages	(155,713,824)	(165,111,774)
Increase (decrease) in syndicated loans	(920,116)	(14,198,331)
Change in accrued interest	(456,972)	(233,039)
Investments in mortgages, end of year	\$ 91,294,614	\$ 100,603,374

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

Maturity period	Number	Amount
Past due	2	\$ 2,409,409
2022	26	34,653,781
2023	21	18,096,923
2024	17	8,776,650
2025 and beyond	6	20,332,354
	72	\$ 84,269,117

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

4. Investments in mortgages (continued):

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 8.85% (2020 - 10.97%).

All mortgages are conventional uninsured mortgages which contain a prepayment option, whereby the borrower may repay the principal and accrued interest, at any time prior to maturity without penalty or yield maintenance.

(a) Mortgage syndication liabilities:

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

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

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its consolidated statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is \$6,810,048 (2020 - \$7,730,164).

(b) 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	\$ 66,268,875	\$ -	\$ -	\$ 66,268,875
Commercial	9,273,986	-	-	9,273,986
Mixed use	6,763,948	-	-	6,763,948
Other	1,962,308	-	-	1,962,308
	\$ 84,269,117	\$ -	\$ -	\$ 84,269,117

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

Gross carrying amount	December 31, 2020			Total
	Stage 1	Stage 2	Stage 3	
Property type:				
Residential	\$ 82,974,067	\$ -	\$ 447,543	\$ 83,421,610
Office	3,067,940	-	-	3,067,940
Retail	754,985	-	-	754,985
Other	4,920,254	-	-	4,920,254
	\$ 91,717,246	\$ -	\$ 447,543	\$ 92,164,789

Provision for credit losses	December 31, 2021			Total
	Stage 1	Stage 2	Stage 3	
Property type:				
Residential	\$ 309,000	\$ -	\$ -	\$ 309,000
Commercial	22,000	-	-	22,000
Mixed Use	21,000	-	-	21,000
Other	6,000	-	-	6,000
	\$ 358,000	\$ -	\$ -	\$ 358,000

Provision for credit losses	December 31, 2020			Total
	Stage 1	Stage 2	Stage 3	
Property type:				
Residential	\$ 290,000	\$ -	\$ -	\$ 290,000
Office	12,000	-	-	12,000
Retail	5,000	-	-	5,000
Other	15,000	-	-	15,000
	\$ 322,000	\$ -	\$ -	\$ 322,000

The provision for mortgage losses, at December 31, 2021, is \$358,000 (2020 - \$322,000). This provision represents management's estimate of the ECLs on mortgages in the Trust'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.

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Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

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

	December 31, 2021			Total
	Stage 1	Stage 2	Stage 3	
December 31, 2020	\$ 322,000	\$ -	\$ -	\$ 322,000
Provision for mortgage losses for 2021:				
Transfers to (from) Stage 1 ⁽¹⁾	-	-	-	-
Transfers to (from) Stage 2 ⁽¹⁾	-	-	-	-
Transfers to (from) Stage 3 ⁽¹⁾	-	-	-	-
Net remeasurement ⁽²⁾	(30,000)	-	-	(30,000)
Mortgage advances	300,000	-	-	300,000
Mortgage repayments	(234,000)	-	-	(234,000)
Write-offs	-	-	-	-
December 31, 2021	\$ 358,000	\$ -	\$ -	\$ 358,000

	December 31, 2020			Total
	Stage 1	Stage 2	Stage 3	
December 31, 2019	\$ 368,000	\$ -	\$ -	\$ 368,000
Provision for mortgage losses for 2020:				
Transfers to (from) Stage 1 ⁽¹⁾	(1,000)	-	-	(1,000)
Transfers to (from) Stage 2 ⁽¹⁾	-	-	-	-
Transfers to (from) Stage 3 ⁽¹⁾	-	-	-	-
Net remeasurement ⁽²⁾	26,000	-	-	26,000
Mortgage advances	110,000	-	-	110,000
Mortgage repayments	(181,000)	-	-	(181,000)
Write-offs	-	-	-	-
December 31, 2020	\$ 322,000	\$ -	\$ -	\$ 322,000

(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.

(c) Land development mortgages:

There were no land development mortgages included in investments in mortgages at December 31, 2021. Included in investments in mortgages at December 31, 2020 was one secured financing arrangement in the aggregate amount of \$2,905,332 to provide financing to land development projects in Texas. The Trust has been assigned title to land lots under the financing arrangement, and the borrower has the option to re-acquire these land lots, based on a fixed pricing schedule. The mortgage was repaid in 2021.

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Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

5. Investments held at fair value:

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

	Balance, January 1, 2021	Additions to investments	Unrealized change in fair value	Distributions paid	Balance, December 31, 2021
TT/M Apartment Fund Trust ^(a)	\$ 207,053	\$ -	\$ 37,188	\$ -	\$ 244,241
Trez Caldwell Station LP ^(b)	4,192,447	481,623	210,100	(4,884,170)	-
Trez Camperdown LP ^(c)	2,828,432	451,168	347,628	-	3,627,228
Trez Blue Diamond LLC ^(d)	13,051,423	6,139,949	696,871	(18,213,658)	1,674,585
TC (2017) Nominee LP ^(e)	5,744,389	7,095,805	388,080	(11,193,525)	2,034,749
Trez Avilla Meadows LP ^(f)	659,311	4,031,701	417,640	(1,945,125)	3,163,527
Trez Capital McGill LP ^(g)	2,045,160	1,392,514	(1,540)	(3,436,134)	-
Trez Capital Winston LP ^(h)	-	4,784,992	150,808	(1,921,743)	3,014,057
Trez Capital Block 40 LP ⁽ⁱ⁾	-	4,794,655	125,245	(3,565,089)	1,354,811
Trez Capital Manhattan Bridge LP ^(j)	-	27,338,160	254,949	(22,323,524)	5,269,585
Trez Capital Alloro LP ^(k)	-	880,086	6,795	-	886,881
Trez Capital Brooklyn Bridge LP ^(l)	-	18,836,816	94,537	(7,938,928)	10,992,425
Trez Capital Land T LP ^(m)	-	6,469,955	576,694	(7,046,649)	-
TH Self Storage #1 Aggregator LP ⁽ⁿ⁾	-	6,543,896	24,446	-	6,568,342
TH Lot Development #1 Aggregator LP ^(o)	-	2,069,296	23,071	-	2,092,367
TT Multi Family Residential #1 Aggregator LP ^(p)	-	1,596,917	18,637	-	1,615,554
TH PrefEq LP ^(q)	-	1,277,782	48,535	-	1,326,317
TC LB Aspen Meadows LP ^(r)	-	15,754	(6,128)	-	9,626
TC LB Bella Vita LP ^(s)	-	2,053	(12,858)	-	(10,805)
TC LB Royal Pines LP ^(t)	-	7,950	(8,626)	-	(676)
TC LB Heron Bay LP ^(u)	-	243	(4,780)	-	(4,537)
TRCH Elm Creek LP ^(v)	-	632	(6,865)	-	(6,233)
TC LB LP ^(w)	-	60,748	287,369	(261,308)	86,809
	\$ 28,728,215	\$ 94,272,695	\$ 3,667,796	\$(82,729,853)	\$ 43,938,853

TREZ CAPITAL YIELD TRUST US

Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

5. Investments held at fair value (continued):

	Balance, January 1, 2020	Additions to investments	Unrealized change in fair value	Distributions paid	Balance, December 31, 2020
TT/M Apartment Fund Trust ^(a)	\$ 365,626	\$ -	\$ 24,276	\$ (182,849)	\$ 207,053
Trez Caldwell Station LP ^(b)	1,116,652	2,878,623	197,172	-	4,192,447
Trez Camperdown LP ^(c)	1,588,750	9,783,996	257,742	(8,802,056)	2,828,432
Trez Blue Diamond LLC ^(d)	11,522,365	1,471,230	1,027,889	(970,061)	13,051,423
TC (2017) Nominee LP ^(e)	-	5,316,760	427,629	-	5,744,389
Trez Avilla Meadows LP ^(f)	-	655,811	3,500	-	659,311
Trez Capital McGill LP ^(g)	-	2,044,544	616	-	2,045,160
	\$ 14,593,393	\$ 22,150,964	\$ 1,938,824	\$ (9,954,966)	\$ 28,728,215

(a) During 2018, the Trust made an investment in TT/M Apartment Fund Trust in which it holds a 34.4% (2020 - 34.4)% interest. The investment has been entered into with an established property developer in Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments. The lead developer assumes the development risk associated with the project in that cost overruns are to be borne by them. Any additional capital contributions are funded on a pro-rata basis in accordance with the terms of the agreement.

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

(b) During 2018, The Trust made an investment in Trez Caldwell Station LP in which it held a 21.6% interest at December 31, 2020. Trez Caldwell Station LP is a special purpose entity that was created to enable the Trust to enter into a loan sharing arrangement with a United States domiciled financial institution. The underlying loans were paid out during 2021 and all capital was returned to investors in full.

(c) During 2019, the Trust made an investment in Trez Camperdown LP in which it holds a 15% interest at December 31, 2021 (2020 - 15%). Trez Camperdown LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. Total assets of the entity are \$85,667,207 as at December 31, 2021 (2020 - \$73,587,618).

(d) During 2019, the Trust made an investment in Trez Blue Diamond LP in which it holds a 19% interest as at December 31, 2021 (2020 - 24%). Trez Blue Diamond LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. Total assets of the entity are \$9,251,383 as at December 31, 2021 (2020 - \$59,513,598).

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

Year ended December 31, 2021

5. Investments held at fair value (continued):

- (e) During 2020, the Trust made an investment in Trez Avilla Meadows LP in which it holds a 12% interest as at December 31, 2021 (2020 - 1%). Trez Avilla Meadows LP is special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. Total assets of the entity are \$54,945,152 as at December 31, 2021 (2020 - \$89,379,586).
- (f) During 2020, the Trust made an investment in Trez Capital McGill LP in which it held a 14% interest at December 31, 2020. Trez Capital McGill LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a United States domiciled financial institution. The underlying loans were paid out during 2021 and all capital was returned to investors in full.
- (g) During 2021, the Trust made an investment in Trez Capital Winston LP in which it holds a 11% interest 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 United States domiciled financial institution. Total assets of the entity are \$73,634,341 as at December 31, 2021.
- (h) During 2021, the Trust made an investment in Trez Capital Block 40 LP in which it holds a 7% 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 United States domiciled financial institution. Total assets of the entity are \$50,904,666 as at December 31, 2021.
- (i) During 2021, the Trust made an investment in Trez Capital Manhattan Bridge LP in which it holds a 15% 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 United States domiciled financial institution. Total assets of the entity are \$135,760,634 as at December 31, 2021.
- (j) During 2021, the Trust made an investment in Trez Capital Alloro LP in which it holds a 25% 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 United States domiciled financial institution. Total assets of the entity are \$3,548,054 as at December 31, 2021.
- (k) During 2020, the Trust made an investment in Trez Capital (2017) Nominee LP in which it holds a 20% interest at December 31, 2021 (2020 - 24%). 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 United States domiciled financial institution. Total assets of the entity are \$18,666,331 as at December 31, 2021 (2020 - \$47,004,196).

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Notes to Consolidated Financial Statements

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

Year ended December 31, 2021

5. Investments held at fair value (continued):

- (l) During 2021, the Trust made an investment in Trez Capital Land T LP in which it held a 10% interest. Trez Capital Land T LP is a special purpose entity that was created to enable the Trust to enter into a loan sharing arrangement with a United States domiciled financial institution. The underlying loans were paid out during 2021 and all capital was returned to investors in full.
- (m) 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 as at December 31, 2021.
- (n) 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 Lot Development #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 as at December 31, 2021.
- (o) 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 as at December 31, 2021.
- (p) During 2021, the Trust made an investment in TH PrefEq LP. The Trust owns preferred LP units, which do not provide an ownership interest. TH PrefEq 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 as at December 31, 2021.
- (q) During 2021, the Trust made an investment in TC LB Aspen Meadows LP. The Trust held a 20% interest in the LP as at December 31, 2021. TC LB Aspen Meadows LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$8,235,637 as at December 31, 2021.
- (r) During 2021, the Trust made an investment in TC LB Bella Vita LP. The Trust held a 20% interest in the LP as at December 31, 2021. TC LB Bella Vita LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$1,300,488 as at December 31, 2021.
- (s) During 2021, the Trust made an investment in TC LB Royal Pines LP. The Trust held a 20% interest in the LP as at December 31, 2021. TC LB Royal Pines LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$4,579,550 as at December 31, 2021.

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Year ended December 31, 2021

5. Investments held at fair value (continued):

- (t) During 2021, the Trust made an investment in TC LB Heron Bay LP. The Trust held a 20% interest in the LP as at December 31, 2021. TC LB Heron Bay LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$328,127 as at December 31, 2021.
- (u) During 2021, the Trust made an investment in TRCH Elm Creek LP. The Trust held a 18% interest in the LP as at December 31, 2021. TRCH Elm Creek LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$313,053 as at December 31, 2021.
- (v) During 2021, the Trust made an investment in TC LB LP. The Trust held a 20% interest in the LP as at December 31, 2021. TC LB LP was established to facilitate land banking transactions with 99% of the funding provided as a mortgage. Total assets of the entity are \$30,631,446 as at December 31, 2021.

6. Investments in associate:

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

	Equity investment December 31, 2020	Share of income (loss)	Net contributions (distributions)	Equity investment December 31, 2021
Investments in associates:				
Urban Aspen Place 16.6% (2020 - 0%)	\$ -	\$ (543,354)	\$ 1,717,806	\$ 1,174,452
HT Country Club SS LP	-	132,444	(132,444)	-
HCT High Point Ranch LP	-	325,322	(325,322)	-
	\$ -	\$ (85,588)	\$ 1,260,040	\$ 1,174,452

The investment in Urban Aspen Place 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.

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7. 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 United States dollars in accordance with the Offering Memorandum of the Trust, dated April 30, 2021.

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

Total distributions for each Unitholder are determined relative to the proportion of the year the Unitholder was invested in the Trust. The holders of Series A Units, Series F Units and Series I Units (collectively, the "Units") are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder in stipulated increments. If notice is received by the Manager, the redemption will occur within thirty days subsequent to the receipt of the redemption notice. Redemptions may be subject to a penalty if redeemed prior to the first anniversary.

USD Class A units	2021		2020	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	1,237,304	\$ 12,343,789	1,219,069	\$ 12,167,648
Issued for cash	163,149	1,631,477	126,805	1,268,056
Issued for reinvested distributions	45,502	455,022	54,970	549,695
Redeemed for cash	(148,568)	(1,485,679)	(166,060)	(1,660,599)
Transfer between classes	32,750	327,504	2,520	25,201
Decrease in net assets attributable to redeemable units, from operations	-	(2,923)	-	(6,212)
Issued and outstanding, end of year	1,330,137	13,269,190	1,237,304	12,343,789
IFRS 9 Stage 1 cumulative provisions	-	32,174	-	29,251
	1,330,137	\$ 13,301,364	1,237,304	\$ 12,373,040

USD Class F units	2021		2020	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	11,755,613	\$ 117,279,152	11,724,572	\$ 117,027,774
Issued for cash	2,066,151	20,661,499	1,511,451	15,114,506
Issued for reinvested distributions	427,833	4,278,329	551,960	5,519,600
Redeemed for cash	(2,744,716)	(27,447,160)	(2,030,040)	(20,300,402)
Transfer between classes	(106,130)	(1,061,309)	(2,330)	(23,301)
Decrease in net assets attributable to redeemable units, from operations	-	(25,046)	-	(59,025)
Issued and outstanding, end of year	11,398,751	113,685,465	11,755,613	117,279,152
IFRS 9 Stage 1 cumulative provisions	-	302,023	-	276,978
	11,398,751	\$ 113,987,488	11,755,613	\$ 117,556,130

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

(a) (continued):

USD Class I units	2021		2020	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	2,091,296	\$ 20,897,189	1,288,041	\$ 12,875,152
Issued for cash	1,835,978	18,359,768	843,470	8,434,704
Issued for reinvested distributions	175,757	1,757,573	99,567	995,674
Redeemed for cash	(528,184)	(5,281,843)	(139,592)	(1,395,923)
Transfer between classes	73,380	733,805	(190)	(1,900)
Decrease in net assets attributable to redeemable units, from operations	-	(8,031)	-	(10,518)
Issued and outstanding, end of year	3,648,227	36,458,461	2,091,296	20,897,189
IFRS 9 Stage 1 cumulative provisions	-	23,803	-	15,771
	3,648,227	\$ 36,482,264	2,091,296	\$ 20,912,960

USD Total units	2021		2020	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	15,084,214	\$ 150,520,130	14,231,682	\$ 142,070,574
Issued for cash	4,065,278	40,652,744	2,481,726	24,817,266
Issued for reinvested distributions	649,092	6,490,924	706,497	7,064,969
Redeemed for cash	(3,421,468)	(34,214,682)	(2,335,692)	(23,356,924)
Transfer between classes	-	-	-	-
Decrease in net assets attributable to redeemable units, from operations	-	(36,000)	-	(75,755)
Issued and outstanding, end of year	16,377,116	163,413,116	15,084,213	150,520,130
IFRS 9 Stage 1 cumulative provisions	-	358,000	-	322,000
	16,377,116	\$ 163,771,116	15,084,213	\$ 150,842,130

(b) All series are of the same class and have the same objectives, strategies and restrictions, but differ with respect to one or more of their features, such as fees and distributions. Distributions allocable to each series of Units will differ as a result of the deduction of the amounts payable in respect of trailer fees, as defined in the Declaration of Trust, for the Series A Units and the lower administration fee payable in respect of the Series I Units.

The total distribution to be made in respect of the December 31 year-end will equal at least 100% of the Trust's taxable income including gains and losses for tax purposes, relating to fluctuations of the U.S. dollar relative to the Canadian dollar, as explained in note 8, less any reserves that the Manager deems appropriate. For the year ended December 31, 2021, the Trust has declared distributions totaling \$10,375,239 (2020 - \$11,521,995).

The distribution declared and payable as at December 31, 2021 was \$320,547 (2020 - \$359,634) and was distributed to the Unitholders subsequent to year-end.

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8. Promissory note receivable:

During 2018, an affiliated company to the Trust foreclosed on the property that was in default in the previous year. The foreclosure occurred due to the borrower's missed mandatory principal payment and their failure to cure that default. The Property consists of 66 Lots that are complete and ready to have homes built on them. The Trust now holds an unsecured interest-free note from the affiliated Company in the amount \$299,605 (2020 - \$587,359).

9. Income taxes:

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

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

For purposes of the Tax Act, the Trust is required to compute its Canadian tax results using Canadian currency. Where an amount that is relevant in computing the Trust's Canadian tax results is expressed in 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 the Canadian dollar.

Any net gain accrued by the Trust for a particular taxation year may be made payable to Unitholders and is thus required to be included in computing Unitholders' income for Canadian tax purposes. The Trust intends to distribute at least 100% of the Trust's taxable income including capital gains for the 2021 fiscal tax period.

For the year ended December 31, 2021, the taxable income of the Trust was \$9,582,831 (2020 - \$7,736,640) and the Trust has declared distributions totaling \$10,375,239 (2020 - \$11,521,995). The difference between distributions declared and taxable income of \$792,408 (2020 - \$3,785,355) is considered a return of capital for tax purposes.

In general, it is anticipated that distributions of foreign exchange will be distributed in the form of additional units with immediate consolidation to preserve the NAV per unit. For the year ended December 31, 2021, a distribution of nil (2020 - nil).

10. Related party transactions and balances:

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

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Year ended December 31, 2021

10. 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 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% (2020 - 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% (2020 - 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 monthly.

For each series of Units of the Trust, the Manager also receives an additional fee (the "Incentive Fee") equal to 10% (2020 - 10%) of net earnings and capital gains plus applicable taxes, but prior to the deduction for the Incentive Fee payable annually.

During 2021, the Trust incurred Management and Incentive Fees in the amount of \$3,507,047 (2020 - \$4,055,642). For the year ended December 31, 2021, the Manager has agreed to waive any Incentive and Management Fees, which would cause distributions of cash to exceed net accounting income prior to distributions. Fees in the amount of \$1,905,704 were waived in 2021 (2020 - \$63,010). Any fees waived are no longer collectible in the current or future years. At December 31, 2021, \$310,579 was receivable from the Manager (2020 - payable of \$1,492,120).

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.

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10. 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 2021, the Trust purchased investments in mortgages of \$6,817,576 (2020 - \$14,247,090) and sold investments in mortgages of \$58,772,444 (2020 - \$24,000,652), to entities under common management.

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

The Trust has invested in a mortgage portfolio with a balance, at December 31, 2021, of \$84,269,117 (2020 - \$92,164,789), 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 United States domiciled financial institutions, real estate development and lot banking. The balance at December 31, 2021 was \$43,938,853 (2020 - \$28,728,215), virtually all of which is made on a participation basis with related parties.

(e) Transfer of investments in associates:

During 2021, The Trust transferred an interest in three investments in associates to a related party. A gain on transfer of \$602,579 was realized.

11. Bank indebtedness:

	2021	2020
(a) U.S. dollar indebtedness from a bank with maximum indebtedness of \$25,000,000 bearing interest at three month LIBOR, as determined on the first day of each calendar month, plus 1.95% and with maturity date of December 31, 2021	\$ -	\$ -

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11. Bank indebtedness (continued):

- (a) In 2018, the Trust entered into a senior secured term loan facility, for available proceeds up to US\$25,000,000, bearing interest at three month LIBOR, as determined on the first day of each calendar month plus 1.95%, and maturing on December 31, 2021. As at December 31, 2021, the amount outstanding on the term loan is nil (2020 - nil). The loan is guaranteed by the Trust and other entities related to the Trust by virtue of common control.

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

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

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

As at December 31, 2021, the Trust was in compliance with all such covenants.

12. Financial instruments and risk management:

- (a) Fair values:

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

The carrying values of the investments in mortgages and syndicated loans payable approximate their fair values because the Manager 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").

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12. Financial instruments and risk management (continued):

(a) Fair values (continued):

December 31, 2021	Carrying value		Fair value
	Amortized cost	FVTPL	
Assets not measured at fair value:			
Investments in mortgages	\$ 91,294,614	\$ -	\$ 91,294,614
Promissory notes receivable	299,605	-	299,605
Cash and cash equivalents	32,732,063	-	32,732,063
Due from related parties	1,458,848	-	1,458,848
Assets measured at fair value:			
Investments held at fair value	-	43,938,853	43,938,853
Restricted cash	-	-	-
Financial liabilities not measured at fair value:			
Mortgage syndication liabilities	6,810,048	-	6,810,048
Distributions payable to holders of redeemable units	320,547	-	320,547
Accounts payable and accrued liabilities	354,724	-	354,724

December 31, 2020	Carrying value		Fair value
	Amortized cost	FVTPL	
Assets not measured at fair value:			
Investments in mortgages	\$ 100,603,374	\$ -	\$ 100,603,374
Promissory notes receivable	587,359	-	587,359
Cash and cash equivalents	27,363,318	-	27,363,318
Due from related parties	792,560	-	792,560
Other assets	3,327	-	3,327
Assets measured at fair value:			
Investments held at fair value	-	28,728,215	28,728,215
Restricted cash	-	2,106,847	2,106,847
Financial liabilities not measured at fair value:			
Mortgage syndication liabilities	7,730,164	-	7,730,164
Management fees payable	1,492,120	-	1,492,120
Distributions payable to holders of redeemable units	359,634	-	359,634
Accounts payable and accrued liabilities	82,952	-	82,952

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.

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12. Financial instruments and risk management (continued):

(a) Fair values (continued):

(ii) Investments held at fair value:

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The Trust's investments in mortgages and mortgage syndication liabilities are carried at fair value in the consolidated 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. At December 31, 2021, a 25-basis point increase in the discount rate used in the discounted cash flow would decrease the fair value by \$46,887 (2020 - 25-basis points increase - \$86,167) and a 25-basis point decrease in the discount rate would increase the fair value by \$203,949. (2020 - 25-basis points decrease - \$86,167).

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Trust'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").

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12. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

2021	Level 1	Level 2	Level 3	Total
Investments held at fair value	\$ -	\$ -	\$ 43,938,853	\$ 43,938,853

2020	Level 1	Level 2	Level 3	Total
Investments held at fair value	\$ -	\$ -	\$ 28,728,215	\$ 28,728,215

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

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

Investments held at fair value, December 31, 2020	\$ 28,728,215
Additions to investments	94,272,695
Unrealized change in fair value	3,667,796
Distributions paid	(82,729,853)
Investments held at fair value, December 31, 2021	\$ 43,938,853

Investments held at fair value, December 31, 2019	\$ 14,593,393
Additions to investments	22,150,964
Unrealized change in fair value	1,938,824
Distributions paid	(9,954,966)
Investments held at fair value, December 31, 2020	\$ 28,728,215

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

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

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12. Financial instruments and risk management (continued):

(a) Fair values (continued):

(iii) Other financial assets and liabilities:

The carrying values of financial assets and financial liabilities not measured at fair value, such as cash and cash equivalents, other assets, due from related parties, promissory notes, accounts payable and accrued liabilities, syndicated mortgage liabilities, management fees payable, distribution payable to holders of redeemable units, and net assets attributable to holders of redeemable units approximate their fair values due to the relatively short periods to maturity of these or because they are receivable or payable on demand.

(iv) Net assets attributable to holders of redeemable units:

The Trust routinely redeems and issues redeemable units at the amount equal to the proportionate share of net assets of the Trust at the time of redemption, calculated on a basis consistent with that used in these consolidated financial statements. Accordingly, the carrying amount of the net assets attributable to the holders of redeemable units approximates their fair value and are based on Level 2 inputs.

(b) Financial risk management:

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

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

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

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Year ended December 31, 2021

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

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

(i) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation that it has entered into with the Trust, resulting in a financial loss to the Trust. This risk arises principally from the investments in mortgages, promissory notes, and other receivables. For risk management reporting purposes the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value; sector risk; location risk; and individual obligor default risk). The Trust manages its credit risk through extensive initial due diligence and careful monitoring of its mortgage portfolio, active communications with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages by its Mortgage Broker, and by matching the cash flow profile of the assets and liabilities. All mortgage investments are approved by the Credit Committee comprised of senior management of the Mortgage Broker. The Mortgage Broker's Credit Committee reviews its policies regarding its lending limits on an ongoing basis. Minimal credit risk also arises from cash deposits. This is mitigated by holding deposits in Canada with major financial institutions.

As at December 31, 2021, the largest mortgage investment in the Trust's mortgage portfolio was \$8,413,446 (2020 - \$8,622,110), which is 5.15% (2020 - 5.73%) of the Trust's net asset value and 9.98% (2020 - 9.36%) of its mortgage portfolio.

The Trust's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2021 and 2020, is represented by the respective carrying amounts of the relevant financial assets in the consolidated statement of financial position.

(ii) Liquidity risk:

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

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

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Notes to Consolidated Financial Statements

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Year ended December 31, 2021

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(ii) Liquidity risk (continued):

As at December 31, 2021, 43.98% of the Trust's mortgage portfolio, being \$37,063,189, is due on or before December 31, 2022 (2020 - 64.20% or \$59,168,515 was due on or before December 31, 2021). The Trust had two mortgages that were overdue on December 31, 2021.

In Management's opinion, the Trust has sufficient resources to meet its current cash flow requirements.

(iii) Market risk:

Market risk is the risk that changes in market factors, such as interest rates, currency and other price risks will affect the Trust's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Trust's strategy for the management of market risk is driven by the Trust's investment objective which is to invest in a diversified portfolio of mortgages on real property located within the United States that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its unit holders.

The Trust's market risk is managed on a regular basis by the Manager in accordance with policies and procedures in place.

(A) Interest rate risk:

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Trust's interest rate risk is primarily attributable to its return on investments in mortgages relative to its resources to fund the mortgages. As described in note 7, Units are redeemable by the unit holders upon 30-days' notice. A significant rise in interest rates may cause unit holders to redeem their Units and could cause a shortfall in funds available to meet such redemptions. The Trust charges a 1% prepayment penalty on redemptions made prior to the first anniversary from the Units' issuance.

As at December 31, 2021, a portion of the Trust's mortgage investments had a floating rate of return; therefore, an increase (decrease) in interest rates would have had an impact on the Trust's net income. A 0.25% (2020 - 0.25%) increase (decrease) in the interest rates with all other variables held constant would increase (decrease) the Trust's income by approximately \$267,086 (2020 - \$68,408) arising from income generated on the Trust's cash deposits and floating rate mortgages.

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Year ended December 31, 2021

12. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(iii) Market risk (continued):

(B) Currency risk:

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

(C) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Trust is exposed to price risk because of its investment in mortgages. These risks arise from changes in the real estate market and could be local or national in nature. Deteriorating real estate values increase the Trust's risk. The Trust manages these risks by actively maintaining strong borrower relationship and active monitoring of all loans.

13. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2021, was \$163,413,116 (2020 - \$150,520,130).

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.