Consolidated Financial Statements
(Expressed in Canadian dollars)

TREZ CAPITAL YIELD TRUST

Year ended December 31, 2018

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Trez Capital Yield Trust

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

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income (loss) for the year then ended;
- the statement of accumulated comprehensive income (loss) for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies.

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

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

Basis for Opinion

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 29, 2019

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)
December 31, 2018, with comparative information for 2017

	Notes		2018		2017
Assets					
Cash and cash equivalents		$	12,803,352	$	16,205,818
Restricted cash			1,540,000		1,620,000
Accrued interest receivable on promissory notes			1,295,627		1,047,734
Other receivables			2,573,063		688,267
Foreign currency derivatives	17		-		2,341,631
Investments in mortgages	5, 14(b)		780,429,280		495,601,853
Investments in associates and joint ventures	4		22,530,108		23,905,667
Investments held at fair value	6		10,530,475		-
Income tax receivable			358,891		-
Promissory notes receivable	8		8,483,113		7,949,571
Due from related parties	14		5,544,593		-
Foreclosed properties held for sale	7		1,900,000		1,912,109
Property under development	9		26,032,752		19,295,166
		$	874,021,254	$	570,567,816
Equity					
Accumulated other comprehensive income		$	2,519,606	$	1,402,123
Non-controlling interests	14(e)		5,257,688		4,270,048
		$	7,777,294	$	5,672,171
Liabilities and Net Assets Attributable to Holders of Redeemable Units					
Accounts payable and accrued liabilities	14(c)	$	5,739,210	$	6,406,991
Bank indebtedness	10		4,220,966		-
Due to related parties	14(a)		-		63,303
Income tax payable			-		1,050,388
Foreign currency derivatives	17		1,569,937		-
Distributions payable to holders of redeemable units	12		16,609,289		15,352,626
Loans payable	11		18,968,823		1,855,333
Mortgage syndication liabilities	5		37,958,169		26,200,518
			85,066,394		50,929,159
Redeemable units, representing net assets attributable to holders of redeemable units	13		781,177,566		513,966,486
		$	866,243,960	$	564,895,645
Total liabilities and net assets attributable to holders of redeemable units and equity		$	874,021,254	$	570,567,816
Redeemable units, representing net assets attributable to holders of redeemable units:	13				
Class A units		$	29,580,669	$	24,316,337
Class F units			395,930,769		294,224,970
Class I units			355,666,128		195,425,179
		$	781,177,566	$	513,966,486

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

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

"Alexander Manson"
(Signed) Alexander Manson
Director

"Ken Lai"
(Signed) Ken Lai
Director

TREZ CAPITAL YIELD TRUST

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

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

	Notes	2018	2017
Revenue:			
Interest income		$ 61,495,577	$ 37,134,214
Interest expense on mortgage syndication liabilities		(2,271,587)	(1,324,695)
Other income		7,769	9,560
		59,231,759	35,819,079
Expenses:			
Management and incentive fees	14(c)	11,993,720	10,564,559
Foreign exchange loss (gain)		3,120,623	(1,350,027)
General and administrative		1,981,234	1,759,317
Commissions		2,119,462	1,371,174
Provision for mortgage losses		843,996	-
		20,059,035	12,345,023
Income from investments in associates and joint ventures	4	4,896,521	10,049,118
Fair value gain on investments held at fair value	5	831,279	-
Fair value gain on foreclosed property held for sale	7	400,000	1,236,472
Income from operations		45,300,524	34,759,646
Financing costs:			
Interest expense		409,473	148,082
Distributions to holders of redeemable units	12	46,485,530	35,386,802
		46,895,003	35,534,884
Loss before income taxes		(1,594,479)	(775,238)
Income taxes:			
Current income tax expense (recovery)	15	(358,891)	741,329
Deferred income tax expense (recovery)	15	-	431,023
		(358,891)	1,172,352
Net loss and comprehensive loss for the year		$ (1,235,588)	$ (1,947,590)
Attributable to:			
Holders of redeemable units		$ (2,611,679)	$ (3,777,726)
Non-controlling interests		1,376,091	1,830,136
		$ (1,235,588)	$ (1,947,590)

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

TREZ CAPITAL YIELD TRUST

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

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

		2018		2017
Net loss (and comprehensive loss) for the year	$	(1,235,588)	$	(1,947,590)
Other comprehensive income:				
Translation adjustment on foreign operations		1,117,483		(2,370,460)
Comprehensive loss	$	(118,105)	$	(4,318,050)
Net comprehensive loss attributable to:				
Net assets attributable to holders of redeemable units	$	(1,494,196)	$	(6,148,186)
Non-controlling interests		1,376,091		1,830,136
	$	(118,105)	$	(4,318,050)

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

TREZ CAPITAL YIELD TRUST

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

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

	2018	2017
Balance, beginning of year	$ 513,966,486	$ 433,120,962
Impact from adopting IFRS 9 (note 18)	(519,290)	-
Net loss attributable to holders of redeemable units	(2,611,679)	(3,777,726)
Contributions and redemptions:		
Issuance of units	285,583,096	115,936,008
Reinvestment of distributions on redeemable units	29,282,285	16,675,116
Redemptions	(44,523,332)	(47,987,874)
	270,342,049	84,623,250
Balance, end of year	$ 781,177,566	$ 513,966,486

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

TREZ CAPITAL YIELD TRUST

Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

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

	2018	2017
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the year	$ (1,235,588)	$ (1,947,590)
Items not involving cash:		
Income from investments in associates and joint ventures	(4,896,521)	(10,049,118)
Unrealized loss (gain) on foreign currency derivatives	3,911,568	(2,859,887)
Fair value gain on foreclosed property held for sale	(400,000)	(1,236,472)
Interest income, net of interest expense on syndications	(59,471,882)	(36,474,184)
Distributions to holders of redeemable units	46,485,530	35,386,802
Deferred income tax expense (recovery)	-	431,023
Provision for mortgage losses	843,996	-
Interest received	44,471,080	25,086,088
Fair value gain on investments held at fair value	831,279	-
Changes in non-cash operating working items:		
Other receivables	(1,884,796)	(612,251)
Restricted cash	80,000	(620,000)
Accounts payable and accrued liabilities	(667,781)	825,166
Income tax payable	(1,409,279)	(453,335)
	26,657,606	7,476,242
Investing activities:		
Funding of investments in mortgages	(893,638,331)	(382,049,975)
Repayments on investments in mortgages	633,958,174	311,424,825
Advances (repayments) of promissory notes receivable	(533,542)	357,690
Acquisition of and additions to property under development	(6,737,586)	(1,631,219)
Proceeds on disposition of foreclosed property held for sale	412,109	-
Distributions from investment in associates and joint ventures	7,389,566	15,446,606
Funding of investments in special purpose entities	(11,361,753)	-
	(270,511,363)	(56,452,073)
Financing activities:		
Distributions paid	(15,946,583)	(15,221,586)
Special purpose entity funding from loan sharing partners	20,490,662	-
Line of credit funding	2,500,000	-
Repayments of promissory notes payable	(1,656,205)	(947,913)
Issuance of units	285,583,096	115,936,008
Redemptions of units	(44,523,332)	(47,987,874)
Change in amounts due from related parties	(5,544,593)	141,286
Change in amounts due to related parties	(63,303)	63,303
Distributions to non-controlling interest	(388,451)	(459,803)
	240,451,291	51,523,421
Increase (decrease) in cash and cash equivalents	(3,402,466)	2,547,590
Cash and cash equivalents, beginning of year	16,205,818	13,658,228
Cash and cash equivalents, end of year	$ 12,803,352	$ 16,205,818

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

1. Nature of business:

Trez Capital Yield Trust (the "Trust") is an unincorporated trust which was established under the laws of British Columbia pursuant to a Declaration of Trust dated March 20, 2013, which was amended and restated March 8, 2016. The Trust commenced operations on April 1, 2013.

Trez Capital Fund Management Limited Partnership is the Trust's manager (the "Manager"), Trez Capital Limited Partnership is the Trust's mortgage broker (the "Mortgage Broker") and Computershare Trust Company of Canada acts as Trustee.

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 within Canada and the United States ("US") and from limited equity profit sharing arrangements through limited partnerships within the United States ("U.S."). Pursuant to the Declaration of Trust, the legal ownership of the Trust's property is vested in the Trustee and the Trust Unitholders' beneficial interest in the Trust is represented by units. The affairs and administration of the Trust are managed by the Manager.

The principal place of business of the Trust is located at 1700-745 Thurlow Street, Vancouver, British Columbia, V6E 4E6.

2. Basis of preparation:

(a) Statement of compliance:

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

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

(b) Basis of measurement:

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

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Trust. The functional currency of the Trust's US subsidiaries and investments in associates and joint ventures is the US dollar. Accordingly, the financial statements of the Trust's US subsidiaries and investments in associates and joint ventures have been translated into Canadian dollars as follows:

(*i*) Assets and liability amounts are translated at the exchange rate at the end of each reporting period;

(*ii*) Amounts included in the determination of earnings is translated at the average exchange rate during the year; and

(*iii*) Any gains or losses from the translation of amounts determined in (*i*) and (*ii*) above are recognized in other comprehensive income and accumulated in the foreign currency translation reserve, which is a separate account within equity in the consolidated statement of financial position.

(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 relates to allowance for credit losses for investments in mortgages have been revised following adoption of IFRS 9 Financial Instruments ("IFRS 9"), effective January 1, 2018 as follows:

(*i*) Investments in mortgages:

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

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

2. Basis of preparation (continued):

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

(*ii*) Investments at fair value

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

3. Significant accounting policies:

(a) Basis of presentation:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements with the exception of IFRS 9 as noted under 3(k) below:

(*i*) Subsidiaries:

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

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

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

The Trust consolidates the following material subsidiaries:

	Province of incorporation	Percentage of ownership
Victoria Customs House LP (Formerly- T-816 Government Street LP)	British Columbia	60%
Trez NP Investors LP	British Columbia	77%
TC Parkside West Investments LP	British Columbia	100%
TC Laurel Park Investment LP	British Columbia	100%
TC H 2014 Partners Investments LP	British Columbia	100%
Trez Avilla Meadows LP	British Columbia	100%
Trez Capital (2017) Nominee LP	British Columbia	100%

3. Significant accounting policies:

(a) Basis of presentation (continued):

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements with the exception of IFRS 9 as noted under 3(k) below:

(*i*) Subsidiaries (continued):

The principal business activity of each of the subsidiaries, except for Trez NP Investors LP, Trez Avilla Meadows LP and Trez Capital (2017) Nominee LP is investment in real estate development. The principal business activity of Trez NP Investors LP, Trez Avilla Meadows LP and Trez Capital (2017) Nominee LP is investment in mortgages. Refer to note 4 for subsidiaries that invest in joint ventures.

(*ii*) Investments in jointly controlled entities:

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

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

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

(*iii*) Investments in associates:

Investments over which the Trust holds significant influence are accounted for using the equity method of accounting. Significant influence is the power to participate in the financial and operating policy decisions of the investee without actual control or joint control of those policies. Under the equity method, the investment is initially recognized at cost and is adjusted thereafter for the post-acquisition change in the Trust's share in the investee's net assets. The Trust's share of investee's profit or loss is included in the Trust's consolidated statement of comprehensive income (loss).

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

3. Significant accounting policies:

(a) Basis of presentation (continued):

(*iii*) Investments in associates (continued):

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.

(*iv*) Investments at Fair value:

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 US domiciled financial institutions.

(b) Cash and cash equivalents:

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

(c) Restricted cash:

Restricted cash relates to margin deposits made on foreign currency swap transactions.

3. Significant accounting policies (continued):

(d) Foreclosed properties held for sale:

When the Trust obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which is comprised of principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Trust uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, obtaining property appraisals from independent valuation specialists.

(e) Property under development:

Property under development includes an investment property being developed for a mixed use development.

Costs include all direct development costs and capitalized carrying costs related to holding the property under development, including borrowing costs.

(f) Promissory notes receivable:

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

(g) Redeemable units:

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

(h) Revenue recognition:

Interest income is recognized in the consolidated statement of net income (loss) in the period in which it is earned on an effective interest rate basis.

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

(i) Distributions on redeemable units:

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

3. Significant accounting policies (continued):

(j) Foreign currency translation:

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

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

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

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

(k) Financial instruments:

(*i*) Change in Accounting Policy:

Effective January 1, 2018, the Trust adopted IFRS 9 *Financial Instruments* ("IFRS 9") which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard sets out requirements for recognizing and measuring financial assets and financial liabilities. It also replaces the IAS 39 "incurred loss" model with an "expected credit loss" (ECL) model. The Trust has recognized adjustments to opening net assets attributable to holders of redeemable units as at January 1, 2018, the date of adoption, to reflect the application of the new requirements of IFRS 9. The total impact to opening net assets attributable to holders of redeemable units is a decrease of $519,290. The adjustment to net assets attributable to holders of redeemable units is comprised of a decrease of $843,996 relating to changes in the provision for credit losses. Refer to note 18 for further details with respect to the impact to the opening statement of financial position at January 1, 2018.

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

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

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

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

3. Significant accounting policies (continued):

(k) Financial instruments:

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

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

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

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

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

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

(*iii*) Impairment:

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

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

3. Significant accounting policies (continued):

(k) Financial instruments (continued):

(*iii*) Impairment (continued):

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

Performing financial assets:

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

Impaired financial assets:

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

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

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

Determining whether there has been a significant increase in credit risk since initial recognition, or a subsequent reduction in credit risk back to the level at initial recognition, requires the exercise of significant judgment. Judgment is also required in making assumptions and estimations when calculating the allowance for credit losses, including movements between the three stages and the application of forward looking information.

3. Significant accounting policies (continued):

(k) Financial instruments (continued):

(*iii*) Impairment (continued):

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 and a new asset is recognized based on the new contractual terms.

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

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

In assessing information about possible future economic conditions, the Trust utilizes multiple economic scenarios including a base case, which represents the most probable outcomeand 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 Manager of the Trust. The Trust exercises experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

3. Significant accounting policies (continued):

(k) Financial instruments (continued):

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

(A) Financial assets:

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

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

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

(B) Financial liabilities:

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

3. Significant accounting policies (continued):

(l) Financial instruments prior to January 1, 2018:

(*i*) Recognition and Classification:

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

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

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

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

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

(*iii*) Impairment:

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

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

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

3. Significant accounting policies (continued):

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

(*iii*) Impairment (continued):

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

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

(m) Other changes in accounting policies:

Revenue recognition:

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

(n) Accumulated other comprehensive income:

Accumulated other comprehensive income represents the cumulative translation adjustment of foreign operations whose function currency is in US dollars.

(o) 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.

3. Significant accounting policies (continued):

(o) Income taxes (continued):

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

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

(p) Future accounting changes:

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

(q) Comparative information:

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

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

4. Investments in associates and joint ventures:

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

	Equity investment December 31, 2017	Share of earnings	Net contributions (distributions)	Impact of foreign exchange	Impact of tax/NCI adjustment	Equity investment December 31, 2018
Investments in associates:						
Trez WTH Equity LP 27.83% (2017 – 27.83%)	$ -	$ 133,572	$ (127,074)	$ 4,226	$ -	$ 10,724
T Church and Stone Oak Investments LP 23.53% (2017 – 23.53%)	1,033,616	40,840	(136,163)	83,660	-	1,021,953
T-NWBP Investments LP 44.61% (2017 – 44.61%)	275,510	91,324	-	-	-	366,834
TC Logan Park Investments LP 40.63% (2017 – 40.63%)	4,499,757	194,444	(213,411)	373,535	-	4,854,325
Trez NP LP 63.00% (2017 – 63.00%)	4,754,020	278,796	(369,388)	-	(31,161)	4,632,267
Total	$ 10,562,903	$ 738,976	$ (846,036)	$ 461,421	$ (31,161)	$ 10,886,103
Investments in joint ventures:						
Parkside Land West LP 50% (2017 – 50%)	5,644,336	2,865,849	(1,126,529)	216,533	(991,696)	6,608,493
HT Spring Stuebner Land LP 50% (2017 – 50%)	4,621,694	871,810	(2,778,072)	287,795	(208,251)	2,794,976
HT Midtown LP 50% (2017 – 50%)	3,076,734	419,886	(1,562,176)	151,734	154,358	2,240,536
Total	$ 13,342,764	$ 4,157,545	$ (5,466,777)	$ 656,062	$ (1,045,589)	$ 11,644,005
Total	$ 23,905,667	$ 4,896,521	$ (6,312,813)	$ 1,117,483	$ (1,076,750)	$ 22,530,108

With the exception of Trez Centro LP and Trez NP LP, the investment in associates and joint ventures above have been entered into with established property developers in Western Canada and Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments. The underlying assets of the joint ventures are being developed with the joint venture counterparty acting as lead developer. The lead developer assumes the development risk associated with the projects in that cost overruns are to be borne by them.

In the case of the joint ventures, the Trust, through an affiliated entity, is represented on the respective joint ventures' major decision committee which entitles the Trust's affiliate and the joint venture counterparty to 50% each of the voting rights with respect to the major decisions impacting the outcome of the relevant developments.

4. Investments in associates and joint ventures (continued):

The following identifies certain obligations and or commitments in accordance with the terms of the agreements for the respective associates and joint ventures:

- Trez WTH Equity LP: Each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital contributions are subject to the unanimous approval of the limited partners, and shall be funded on a pro-rata basis.

- T Church and Stone Oak Investments LP: In accordance with the provisions of the limited partnership agreement, the Trust made an initial contribution of US$700,000. Each limited partner shall make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital contributions are funded on a pro-rata basis.

- T- NWBP Investments LP: In accordance with the provisions of the limited partnership agreement, the general partner, at its sole discretion, shall offer additional partnership units for sale to limited partners on a pro-rata basis. Any additional units which remain unsubscribed for may be offered to any limited partner or third party as the general partner determines.

- TC Logan Park Investments LP: In accordance with the provisions of the limited partnership agreement, the Trust made an initial contribution of US$1,900,000, representing a 29.69% interest in the limited partnership. In accordance with the provisions of the limited partnership agreement, each limited partner will make additional capital contributions to the capital of the partnership to meet additional funding requirements, as determined and called by the general partner from time to time in accordance with the terms of the limited partnership agreement. Any additional capital is funded on a pro-rata basis.

- Trez NP LP: This investment is held by the Trust's 77% owned consolidated subsidiary, Trez NP Investors LP. Trez NP LP invests in a pool of mortgages. The Trust records its investment in Trez NP LP as an investment in associate as it has significant influence but not control over the entity.

- Parkside Land West LP: This investment is held by the consolidated subsidiary, TC Parkside West Investments LP. The Trust is required to contribute a pre-agreed capital contribution of US$6,190,000 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such terms are defined).

  Parkside Land West LP (continued): These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venture will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

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

4. Investments in associates and joint ventures (continued):

- HT Spring Stuebner Land LP: This investment was held by the consolidated subsidiary, TC Laurel Park LP. The Trust is required to contribute a pre-agreed capital contribution of US$3,423,550 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such capitalized terms are defined). These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venture will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

- HT Midtown LP: This investment is held by the consolidated subsidiary, TC H 2014 Partners Investments LP. The Trust is required to contribute a pre-agreed capital contribution of US$2,154,000 as well as the additional capital contributions as approved and called by the general partner that cover the Trust's committed capital contributions for each particular phase of development and for which the Trust has not yet made such contributions to the required amounts. The Trust is not obligated to make additional capital contributions for cost overruns. However, the Trust is obligated to make additional capital contributions, should they be requested by the general partner, to fund operating shortfalls, other permitted costs and other contribution obligations (as such capitalized terms are defined). These additional contributions will be made on a pro-rata basis to the Trust's holding in the joint venture. Should the Trust fail to make such obligated contributions, the other joint venture will be entitled to pay that defaulting amount and will thereby increase its pro-rata entitlement to the residual returns on the investment, while the Trust will be subject to a corresponding reduction in its pro-rata entitlement to the residual returns on the investment.

Investments in associates – significant influence:

The summary below shows 100% of the investees' total assets, total liabilities, revenue, expenses and net income on aggregate basis for investments in associates.

	2018	2017
Total assets	$ 24,907,456	$ 25,929,152
Total liabilities	351,892	585,863
Revenue	1,653,890	4,632,768
Expenses	32,011	40,832
Net income	1,621,699	4,572,440

During the year ended December 31, 2018, the Trust recorded income from its equity accounted investments in associates of $738,976 (2017 - $1,209,415). As at December 31, 2018, the Trust's total investment in associates in which the Trust has significant influence is $10,886,103 (2017 - $10,562,903).

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

4. Investments in associates and joint ventures (continued):

Investments in joint ventures:

The summary below shows 100% of the investees' total assets, total liabilities, revenue, expenses and net income on aggregate basis for its joint ventures.

	2018	2017
Total assets	$ 70,054,507	$ 44,678,297
Total liabilities	68,966,619	40,961,760
Revenue	44,161,038	58,242,244
Expenses	30,927,562	40,317,908
Net income	13,233,476	17,924,335

During the year ended December 31, 2018, the Trust recorded its share of income from joint ventures of $4,157,545 (2017 - $8,839,703). As at December 31, 2018, the Trust's total investment in joint ventures is $11,644,005 (2017 - $13,342,764).

5. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

	2018		2017	
Property type	Number	Amount	Number	Amount
Industrial	14	$ 51,271,599	14	$ 63,818,762
Office	9	100,064,149	10	32,889,255
Residential	104	441,420,442	80	296,344,673
Retail	8	70,585,146	5	16,588,250
Other	4	70,618,704	5	52,746,506
	139	733,960,040	114	462,387,446
Mortgage syndications		37,958,169		26,200,518
	139	771,918,209	114	488,587,964
Accrued interest		9,874,357		7,013,889
Less: Provision for mortgage losses		(1,363,286)		-
Investments in mortgages	139	$ 780,429,280	114	$ 495,601,853

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

5. Investments in mortgages (continued):

	2018		2017	
Location	Number	Amount	Number	Amount
Alberta	31	$ 279,063,469	38	$ 223,126,586
British Columbia	29	151,678,544	18	54,007,457
Quebec	1	668,497	-	-
Ontario	13	47,620,940	10	24,995,279
Nova Scotia	2	5,826,495	1	2,267,112
Texas	22	90,966,966	20	24,107,747
California	5	16,891,096	7	34,589,142
Colorado	2	10,334,844	-	-
Florida	12	33,829,820	10	58,558,878
Oregon	3	15,485,733	3	21,132,393
Virginia	1	2,384,281	1	4,861,634
Washington	5	16,744,244	2	9,213,436
Georgia	2	4,128,086	1	1,312,426
Utah	1	1,372	1	631,352
Arizona	5	38,483,423	1	1,267
North Carolina	3	16,607,593	1	3,582,736
Pennsylvania	1	3,243,273	-	-
Tennessee	1	1,364	-	-
Total mortgages	139	$ 733,960,040	114	$ 462,387,445

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

	2018	2017
Investments in mortgages, beginning of year	$ 495,601,853	$ 432,497,768
Funding of investments in mortgages	893,638,331	382,049,975
Interest capitalized to investments in mortgages	11,892,437	9,801,166
Principal, including capitalized interest, payments on investments in mortgages	(633,958,174)	(311,424,823)
Increase (decrease) in mortgage syndication liabilities	11,757,649	(14,220,231)
Impact of adopting IFRS 9	(519,290)	-
ECL for 2018	(843,996)	-
Transfer to unsecured notes	-	(3,986,541)
Increase in accrued interest	2,860,470	884,539
Investments in mortgages, end of year	$ 780,429,280	$ 495,601,853

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 10.28% (2017 - 9.10%).

All mortgages, except for the mortgage under the CMBS program as discussed below, 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.

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

5. Investments in mortgages (continued):

At December 31, 2018 and December 31, 2017, the Trust is invested in one loan under the CMBS program at an effective interest rate of 4.17%, which matures in September 2024.

(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 are secured by first mortgage positions. As a result, the senior lenders' position is recorded as a mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the consolidated statement of net income (loss). The Trust also retains an option, not the obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders' share together with accrued interest.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its consolidated statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is $37,958,169 (2017 - $26,200,518).

(b) Mortgages in default:

As at December 31, 2018, the Trust had no mortgages that were in default (2017 - no mortgages).

Mortgages that are in default are not provided against if they are fully secured and collection efforts are reasonably expected to result in repayment of principal plus all associated costs and accrued interest.

During 2017, an affiliated company to the Trust foreclosed on the property that was in default in the previous year. The foreclosure occurred due to the borrower's missed mandatory principal payment and their failure to cure that default. The Property consists of 66 lots that are complete and ready to have homes built on them. The Trust now holds an unsecured note from the affiliated company in the amount $875,105 (note 8).

(c) Provision for mortgage investment loss:

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

	December 31, 2018			
Provision for mortgage losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 39,021,000	$ 12,250,598	$ -	$ 51,271,598
Office	100,064,149	-	-	100,064,149
Residential	427,572,969	34,201,537	-	461,774,506
Retail	50,231,083	-	-	50,231,083
Other	70,618,704	-	-	70,618,704
	$ 687,507,905	$ 46,452,135	$ -	$ 733,960,040

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

5. Investments in mortgages (continued):

(c) Provision for mortgage investment loss (continued):

	December 31, 2018			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Industrial	$ 13,385	$ -	$ -	$ 13,385
Office	54,819	-	-	54,819
Residential	1,122,159	-	-	1,122,159
Retail	111,014	-	-	111,014
Other	61,909	-	-	61,909
	$ 1,363,286	$ -	$ -	$ 1,363,286

The provision for mortgage losses at December 31, 2018 is $1,363,286. This provision represents management's estimate of the ECLs on mortgages in the company's portfolio that have not experienced a significant increase in credit risk since initial recognition (Stage 1). The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and 3. Management estimated the ECL for these as $nil, primarily due to the mortgage collateral held on the mortgages.

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

	December 31, 2018			
IFRS 9	Stage 1	Stage 2	Stage 3	Total
IAS 39 balance, December 31, 2017	$ -	$ -	$ -	$ -
Transition adjustment (note 3 (k))	519,290	-	-	-
Provision for mortgage losses in 2018:				
Transfers to (from) Stage 1 [(1)]	-	-	-	-
Transfers to (from) Stage 2 [(1)]	-	-	-	-
Transfers to (from) Stage 3 [(1)]	-	-	-	-
Net remeasurement [(2)]	(114,264)	-	-	(114,264)
Mortgage advances	1,179,677	-	-	1,179,677
Mortgage repayments	(221,417)	-	-	(221,417)
Write-offs	-	-	-	-
	$ 1,363,286	$ -	$ -	$ 1,363,286

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

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

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

5. Investments in mortgages (continued):

(c) Provision for mortgage investment loss (continued):

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

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

(d) Profit participation mortgages:

Included in the investments in mortgages are certain profit participation mortgages which, in addition to the interest at a stipulated rate, provides the Trust with an entitlement to future profits from the projects as set in the terms of the mortgage agreement.

As at December 31, 2018 the Trust had no mortgages with profit participation features (2017 - four):

	2018			2017		
	Number		Amount	Number		Amount
Profit participation mortgages	-	$	-	4	$	40,051,777

(e) Schedule of maturity of investments in mortgages:

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

Maturity period	Number		Amount
Past due	13	$	46,246,768
2019	50		233,815,509
2020	60		284,601,177
2021	13		141,732,232
2022 and beyond	3		27,564,354
	139	$	733,960,040

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

6. Investments held at fair value:

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

	Balance, January 1, 2018	Additions to investments	Change in fair value	Distributions paid	Balance, December 31, 2018
Trez Forman Floridian LP (a)	$ -	$ 2,164,885	$ 153,391	$ -	$ 2,318,276
Trez Caldwell Station LP (b)	-	1,748,240	96,499	-	1,844,739
Trez Forman 1624/17 LLC	-	5,786,071	581,389	-	6,367,460
	$ -	$ 9,699,196	$ 831,279	$ -	$ 10,530,475

(a) During 2018, the Trust made an investment in Trez Forman Floridian LP in which it holds a 20% interest. Trez Forman Floridian LP is a special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institutions. The Trust guarantees the amount of $9,901,845 US Dollars for the investment.

(b) During 2018, The Trust made an investment in Trez Caldwell Station LP in which it holds a 36.3% interest. Trez Caldwell Station LP is special purpose entity that was created to enable the Trust to enter into loan sharing arrangement with a US domiciled financial institution.

(c) During 2018, The Trust along with another related Trez entity made a joint 50-50 investment in Trez Forman 1624/17 LLC in which together they hold 51% interest. Trez Forman 1624/17 LLC is a special purpose entity that was created for sole purpose to allow the Trust to enter a loan sharing arrangement with a US domiciled financial institution.

7. Foreclosed properties held for sale ("FPHFS"):

As at December 31, 2018, there was one FPHFS (2017 - two). These are recorded at their fair value of $1,900,000 (2017 - $1,912,109). The changes in the FPHFS during the years end December 31, 2018 and December 31, 2017 were as follows:

	2018	2017
Balance, beginning of year	$ 1,912,109	$ 675,637
Fair market value adjustment	400,000	1,236,472
Proceeds on disposition of property	(412,109)	-
Balance, end of year	$ 1,900,000	$ 1,912,109

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

8. Promissory notes receivable:

	2018	2017
Secured, demand promissory note due from a private entity bearing interest at 8% per annum	$ 2,208,602	$ 2,208,602
USD demand promissory note due from TC Logan Park bearing interest at 10% per annum	1,963,052	1,360,182
Secured, promissory note due from a private entity bearing interest at 5% per annum	3,436,354	3,574,325
USD unsecured, interest free, promissory note due from a private affiliated entity	875,105	806,462
	$ 8,483,113	$ 7,949,571

9. Property under development:

Property under development represents a real estate development in Victoria, BC held in a limited partnership Victoria Custom House (formerly T-816 Government Street), that the Trust has determined it controls and consolidates. The Trust owns 60% of the units in the limited partnership. The following costs were included in the amounts capitalized with respect to the development during the year ended December 31, 2018:

	2018	2017
Land and other costs	$ 26,032,752	$ 19,295,166

10. Bank indebtedness:

The Trust has a revolving demand loan with a Canadian bank providing for borrowings up to $50,000,000 (2017 - $50,000,000) by way of direct advances. The amount available under the loan is further limited by a margin requirement. Interest is calculated at the bank's prime rate plus 1.5% per annum and a standby fee is calculated on the undrawn portion of the loan at 0.33% per annum.

The credit facility has financial tests and other covenants with which the Trust must comply. The Trust shall not, without the prior written consent of the bank: (a) permit its ratio of bank debt to tangible net worth at any time to exceed 0.2 to 1.00; or (b) permit its tangible net worth at any time to be less than $350,000,000; (c) maintain a Bank Debt to EBITDA Ratio equal to or less than 2.5 to 1.0 calculated as at the end of each Financial Quarter for the same Financial Quarter then ended. These covenants place restrictions on, among other things, the ability of the Trust to incur additional indebtedness, and to sell or otherwise dispose of assets. During the year, the Trust was in compliance with all such covenants.

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

10. Bank indebtedness (continued):

The credit facility is collateralized by a general security agreement representing a fixed and floating charge on all current and future mortgages receivables and all other accounts and assets of the Trust and an assignment of the Trust's beneficial interest in all mortgages held.

As at December 31, 2018 there was $2,500,000 drawn down on the credit facility (2017 - Nil).

In addition, the Trust has entered into an agreement with external lenders to create special purpose entities through which, additional borrowing can be received. As at December 31, 2018 amounts of $1,720,966 were outstanding relating to lines of credit with one external lender (2017 – Nil).

11. Loans payable:

	2018	2017
US dollar demand loan from a private investor, bearing interest at 5.0% per annum, repayable on demand upon 30 days' notice (2018 - US$145,977; 2017 - US$284,347)	$ 199,127	$ 357,452
Demand loan from a private investor, bearing interest at 5.0% per annum, repayable on demand upon 30 days' notice	-	1,497,881
Note payable to private lender relating to Special Purpose Entity Funding	18,769,696	-
Total loans payable	$ 18,968,823	$ 1,855,333

During the year, the Trust incurred interest charges of $384,337 (2017 - $148,082) relating to loans payable.

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

12. Distributions payable to holders of redeemable units:

The Trust makes distributions totaling at least 100% of the taxable income of the Trust to Unitholders of each class on an annual basis.

Distributions allocable to each class of units differs as a result of the deduction of the amounts payable quarterly in respect of 1.0% per annum trailer fee, as defined in the Declaration of Trust, for the Class A Units and the lower administration fee payable in respect of the Class I Units. For the year ended December 31, 2018, the taxable income of the Trust was $46,485,530 and the accounting income of the Trust attributable to holders of redeemable units, before distributions was $45,249,942. In accordance with its trust indenture, the Trust distributed an amount equal to taxable income. The difference of $1,235,588 between accounting income and taxable income primarily reflect timing differences arising from equity investments.

For the year ended December 31, 2018, $40,697,961 (2017 - $21,432,858) of the declared distributions were reinvested.

As at December 31, distributions payable on redeemable units are as follows:

	2018	2017
Cash paid out subsequent to the year	$ 5,193,613	$ 6,109,856
Reinvested as trust units	11,415,676	9,242,770
	$ 16,609,289	$ 15,352,626

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

As at December 31, 2018 and 2017, there were an unlimited number of Class A Units, Class F Units and Class I Units authorized.

The holder of Class A Units, Class F Units and Class I Units (collectively, the “Units”) are entitled to one vote per unit. The Units are redeemable on demand of the Unitholder upon 30 days’ notice in increments of not less than $5,000. If notice is received by the Manager, the redemption will occur within thirty days subsequent to the receipt of the redemption notice. Redemptions may be subject to a 1.0% discount if units are redeemed prior to their one year anniversaries.

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

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

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

Reconciliation of Units:

	2018		2017	
Class A units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	2,504,229	$ 24,316,337	2,813,863	$ 27,593,177
Decrease in net assets attributable to redeemable units, from operations	-	(98,896)	-	(180,502)
Impact of adopting IFRS 9	-	(19,664)	-	-
Issued for cash	926,574	9,265,745	391,004	3,910,035
Issued for reinvested distributions	101,940	1,019,396	76,380	763,806
Redeemed for cash	(490,225)	(4,902,249)	(777,018)	(7,770,179)
Issued and outstanding, end of year	3,042,518	$ 29,580,669	2,504,229	$ 24,316,337

	2018		2017	
Class F units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	29,996,551	$ 294,224,970	24,415,324	$ 240,574,812
Decrease in net assets attributable to redeemable units, from operations	-	(1,323,699)	-	(2,162,112)
Impact of adopting IFRS 9	-	(263,196)	-	-
Issued for cash	10,839,847	108,398,466	7,259,912	72,599,127
Issued for reinvested distributions	1,465,706	14,657,064	950,152	9,501,516
Redeemed for cash	(1,976,284)	(19,762,836)	(2,628,837)	(26,288,373)
Issued and outstanding, end of year	40,325,820	$ 395,930,769	29,996,551	$ 294,224,970

	2018		2017	
Class I units	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	19,910,358	$ 195,425,179	16,719,638	$ 164,952,973
Decrease in net assets attributable to redeemable units, from operations	-	(1,189,084)	-	(1,435,112)
Impact of adopting IFRS 9	-	(236,430)	-	-
Issued for cash	16,791,889	167,918,885	3,942,685	39,426,846
Issued for reinvested distributions	1,360,582	13,605,824	640,967	6,409,794
Redeemed for cash	(1,985,825)	(19,858,246)	(1,392,932)	(13,929,322)
Issued and outstanding, end of year	36,077,004	$ 355,666,128	19,910,358	$ 195,425,179

Reconciliation of Units (continued):

	2018		2017	
Total	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	52,411,138	$ 513,966,486	43,948,825	$ 433,120,962
Decrease in net assets attributable to redeemable units, from operations	-	(2,611,679)	-	(3,777,726)
Impact of adopting IFRS 9	-	(519,290)	-	-
Issued for cash	28,558,310	285,583,096	11,593,601	115,936,008
Issued for reinvested distributions	2,928,228	29,282,285	1,667,499	16,675,116
Redeemed for cash	(4,452,333)	(44,523,332)	(4,798,787)	(47,987,874)
Issued and outstanding, end of year	79,445,343	$ 781,177,566	52,411,138	$ 513,966,486

14. Related party transactions:

The Trust invests in mortgages alone or on a participation basis with parties related to the Manager. Titles to mortgages are held by TCC Mortgage Holdings Inc., a bare trustee, or Computershare Trust Company of Canada, on behalf of the beneficial owners of the mortgages. In addition, certain duties are performed by the Mortgage Broker. The Mortgage Broker is related to the Manager and the Trust through common control. In cases where mortgages are held on a participation basis:

- The Trust's rights are as outlined in the Declaration of Trust and a Mortgage Participation and Servicing Agreement with the Mortgage Broker.
- Pursuant to this Mortgage Participation and Servicing Agreement, the Mortgage Broker administers and services the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's loan originator, underwriter, servicer and syndicator.
- The Mortgage Broker performs certain duties including registering the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.
- The Mortgage Broker delivers cash payments for interest and principal to the Trustee.

The Trust is managed by the Manager pursuant to the Declaration of Trust, a summary of which is set out in the most current Confidential Offering Memorandum. Certain of the Manager's duties may be performed by a company or companies related to the Manager through common control.

The Manager is responsible for the 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 is liable to the Manager for all expenses incurred in the management of the Trust except as previously noted.

The following are related party transactions not disclosed elsewhere in these financial statements:

(a) Due (to) from related parties:

Amounts due from related parties at December 31, 2018 were $5,544,593 (2017 - nil). The amounts related to a mortgage repayment to a bank account of the Manager at year end of $3,676,933 and amounts receivable from special purpose entity loan sharing partners relating to funding made on their behalf of $1,867,660.

Amounts due to related parties at December 31, 2018 were nil (2017 - $63,303).

(b) Transfer of investments in mortgages:

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

During the year ended December 31, 2018, the Trust purchased investments in mortgages of $159,736,942 (2017 - $19,215,578) and sold investments in mortgages of $264,168,281 (2017 - $114,107,289) to entities under common management.

14. Related party transactions (continued):

(c) Management and incentive fees:

Pursuant to the terms and conditions of the Declaration of Trust, the Manager in entitled to receive from the Trust in respect of each class of units an annual fee (the "Management Fee") payable quarterly. For Class A Units and Class F Units this fee is equal to 1.5% of the proportionate share of the average gross assets of the Trust plus applicable taxes. For Class I Units this is equal to a percentage, that is negotiated between the Manager and the Unitholder, of the proportionate share of the average gross assets of the Trust plus applicable taxes. The average gross assets of the Trust are calculated using a simple moving average of the month end value of all assets, excluding mortgage syndications, of the Trust. For each class of units of the Trust, the Manager also receives an additional fee (the "Incentive Fee") equal to 10% of net earnings and capital gains but prior to the deduction for the Incentive Fee, payable annually.

During the year ended December 31, 2018, the Trust incurred incentive and management fees of $2,113,327 (2017 - $3,683,155) and $9,880,393 (2017 - $6,881,404), respectively, payable to the Manager. A portion of the Incentive Fees in the amount of $3,013,284 were waived by the Manager in 2018 (2017 - nil). As at December 31, 2018, $4,839,838 of the management and incentive fee (2017 - $5,562,141) remained outstanding, and is included in accounts payable and accrued liabilities.

(d) Co-investment in mortgages:

The Trust has invested in a mortgage portfolio with a balance at December 31, 2018 of $780,429,280 (2017 - $495,601,853), virtually all of which are made on a participation basis with related parties.

(e) Non-controlling interest:

Included in non-controlling interest on the consolidated statement of financial position is $5,257,688 (2017 - $4,270,048) which is held by entities related to the Manager by common ownership. The non-controlling interest relates to the Trust's investments in the joint ventures of Parkside Land West LP, TC H 2014 Partners Investments LP, and HT Spring Stuebner LP (note 4) of which the non-controlling interest is entitled to 35% of the distributable cash flows from the two joint ventures and to the 24% non-controlling interest of Trez NP Investors LP. During the year ended December 31, 2018, $1,376,091 (2017 - $1,830,136) of net income has been allocated to the non-controlling interest for its share of the net income of the three joint ventures and Trez NP Investors LP.

14. Related party transactions (continued):

(f) Co-investment in associates and joint ventures:

As at December 31, 2018, the Trust has co-invested in certain associates and joint ventures investments with the owners of the Manager and their close family members and other Trez managed funds which are related parties by virtue of common management, as follows:

- As at December 31, 2018, the owners of the Manager and their close family members own 39% (2017 - 39.0%) of the units of Trez WTH Equity LP and other Trez managed funds own 17% (2017 - 17.0%) of the units of Trez WTH Equity LP.
- As at December 31, 2018, the owners of the Manager and their close family members own 42% (2017 - 42.0%) of the units of T- NWBP Investments LP.
- As at December 31, 2018, the owners of the Manager and their close family members own 7.8% (2017 - 7.8%) of the units of TC Logan Park Investments LP.
- As at December 31, 2018, the owners of the Manager and their close family members own 13.5% (2017 - 13.5%) of the units of T Church and Stone Oak Investments LP.
- As at December 31, 2018, the owners of the Manager and their close family members own 12.6% (2017 - 12.6%) of the units of Trez NP Investors LP and other Trez managed funds own 7.2% (2017 - 7.2%) of the units of Trez NP Investors LP.

15. 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 tax in the Trust. Accordingly, no provision for Canadian income taxes will be reflected in the Trust's consolidated financial statements.

During the year ended December 31, 2018, the Trust has recorded current tax recovery of $358,891 (2017 expense - $741,329) and deferred income tax expense of nil (2017 - expense of $431,023) relating to US income taxes owing for certain consolidated US subsidiaries that hold investments in associates and joint ventures based in the US. Deferred income tax recovery relates to temporary differences on the tax and accounting basis of properties under development in the respective investments. There was also nil (2017 - $121,964) recorded as tax expense for amounts payable related to withholding taxes.

16. Fair value measurements:

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

The carrying values of financial assets and financial liabilities not measured at fair values, such as cash and cash equivalents, restricted cash, accrued interest receivable, other receivables, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, distributions payable on redeemable units, line of credit and loans payable approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand. The carrying values of the investments in mortgages and mortgage syndication liabilities, approximate their fair values because the Manager does not expect any significant changes in interest rates, foreign exchange risk or credit risk.

The following table shows a hierarchy for disclosing fair value based on inputs used to value the Trust's assets or liabilities that are measured at fair value or for which fair value disclosure is required. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

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

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

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

16. Fair value measurements (continued):

	Carrying value		
December 31, 2018	Amortized Cost	FVTPL	Fair value
Assets not measured at fair value			
Investments in mortgages, including mortgage syndication liabilities	$ 780,429,280	$ -	$ 780,429,280
Cash and cash equivalents	12,803,352	-	12,803,352
Restricted cash	1,540,000	-	1,540,000
Accrued interest receivable	1,295,627	-	1,295,627
Other receivables	2,573,063	-	2,573,063
Promissory notes receivable	8,483,113	-	8,483,113
Due from related party	5,544,593	-	5,544,593
Assets measured at fair value			
Foreclosed properties held for sale	-	1,900,000	1,900,000
Investments at fair value	-	10,530,475	10,530,475

	Carrying value			
December 31, 2018	Amortized Cost	FVTPL	Other financial liabilities	Fair value
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	$ -	$ -	$ 5,739,210	$ 5,739,210
Line of credit	-	-	4,220,966	4,220,966
Distributions payable on redeemable units	-	-	16,609,289	16,609,289
Loans payable	-	-	18,968,823	18,968,823
Due to related parties	-	-	-	-
Mortgage syndication liabilities	-	-	37,958,169	37,958,169
Net assets attributable to holders of redeemable units	-	-	781,177,566	781,177,566
Financial liabilities measured at fair value				
Foreign currency derivatives	-	1,569,937	-	1,569,937

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

16. Fair value measurements (continued):

December 31, 2017	Carrying value Loans and receivable	Carrying value FVTPL	Carrying value Other financial liabilities	Fair value
Assets not measured at fair value				
Investments in mortgages, including mortgage syndication liabilities	$ 495,601,853	$ -	$ -	$ 495,601,853
Cash and cash equivalents	16,205,818	-	-	16,205,818
Restricted cash	1,620,000	-	-	1,620,000
Accrued interest receivable	1,047,734	-	-	1,047,734
Other receivables	688,267	-	-	688,267
Promissory notes receivable	7,949,571	-	-	7,949,571
Assets measured at fair value				
Embedded derivatives, included in profit participation mortgages	-	-	-	-
Foreign currency derivatives	-	2,341,631	-	2,341,631
Foreclosed properties held for sale	-	1,912,109	-	1,912,109

December 31, 2017	Carrying value Loans and receivable	Carrying value FVTPL	Carrying value Other financial liabilities	Fair value
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	$ -	$ -	$ 6,406,991	$ 6,406,991
Income tax payable	-	-	1,050,388	1,050,388
Distributions payable on redeemable units	-	-	15,352,626	15,352,626
Loans payable	-	-	1,855,333	1,855,333
Due to related parties	-	-	63,303	63,303
Mortgage syndication liabilities	-	-	26,200,518	26,200,518
Net assets attributable to holders of redeemable units	-	-	513,966,486	513,966,486

16. Fair value measurements (continued):

There were no transfers between Level 1, Level 2 and Level 3 during the years ended December 31, 2018 and 2017.

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

(a) Investments in mortgages and mortgage syndication liabilities:

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

(b) Investments held at fair value:

There is no quoted price in an active market for the investments held at fair value as the investments are held in private entities. For the year ended December 31, 2018, the investments' carrying amounts approximate fair value as the investments were made during 2018. The fair value of the investment held at fair value is based on Level 3 inputs.

(c) Foreign currency derivatives:

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

(d) Other financial assets and liabilities:

The fair values of cash, restricted cash, accrued interest receivable, other receivables, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, distributions payable on redeemable units, and loans payable approximate their carrying value due to their short-term maturities.

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

The Trust routinely redeems and issues redeemable units at $10 per unit.

16. Fair value measurements (continued):

(f) Foreclosed properties held for sale:

The Manager makes its determination of the fair value of foreclosed properties held for sale using the following:

- Direct Capitalization Method. This valuation method is based on stabilized net operating income ("NOI") divided by an overall capitalization rate. Stabilized NOI is based on the location, type and quality of the property and supported current market rents for similar properties, adjusted for estimated vacancy rates and expected operating costs. Capitalization rate is based on location, size and quality of the property taking into account market data at the valuation date. As such, the fair value determined using this method is based on the use of Level 3 inputs.

  The estimated fair value would increase (decrease) if stabilized NOI was higher (lower) or overall capitalization rates were lower (higher).

- Comparable Land Sales. Where the foreclosed property held for sale is land, the Manager determines the fair value of the land based on comparable land sales for properties within the same area. As such, the fair value determined using this approach is based on the use of Level 3 inputs.

17. Financial instruments and risk management:

(a) Fair value:

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

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

Management's risk management policies are typically performed as a part of the overall management of the Trust's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Trust may be exposed to a number of risks that could affect its operating performance. Management's close involvement in operations will help to identify risks and variations from expectations.

17. Financial instruments and risk management (continued):

(a) Fair value (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 receivable, 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’s policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out by the Manager’s Credit Committee.

Credit risk is monitored on an on-going basis by the Manager in accordance with policies and procedures in place. The Trust’s credit risk is monitored on a quarterly basis by the Trust’s Board of Governors.

The Mortgage Broker’s Credit Committee reviews its policies regarding its lending limits on an on-going basis. As at December 31, 2018, 15.3% (2017 - 15.4%) of the Trust’s portfolio was advanced to a single borrowing group. Minimal credit risk also arises from cash, and deposits which is mitigated by holding cash and deposits in Canada with a major financial institution.

The Trust’s maximum credit risk exposure (without taking into account collateral and other credit enhancements) at December 31, 2018 and December 31, 2017 is represented by the respective carrying amounts of the relevant financial assets in the consolidated statement of financial position.

(*ii*) Liquidity risk:

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

The Trust's liquidity requirements relate to its obligations under its loans payable, accounts payable and accrued liabilities, mortgage syndication liabilities, distributions payable to holders of redeemable units, redeemable units, loans payable and its obligations to make future advances under its existing mortgage portfolio. Liquidity risk is managed by ensuring that the sum of: (*i*) availability under the Trust's bank borrowing line; (*ii*) the sourcing of other borrowing facilities; and (*iii*) projected repayments under the existing mortgage portfolio, exceeds projected needs (including funding of further advances under existing and new mortgage investments). As at December 31, 2018, 38.2% of the Trust’s mortgage portfolio, being $280,062,777 is due on or before December 31, 2019 (2017 - 57.7% or $266,973,932 due before December 31, 2018).

17. Financial instruments and risk management (continued):

(a) Fair value (continued):

(*ii*) Liquidity risk (continued):

Loans payable do not have associated maturity dates but are repayable on demand upon 30 days' notice.

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

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 and investments in associates. 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 and development projects within Canada and the United States that preserves capital and generates returns in order to permit the Trust to pay quarterly distribution to its Unitholders.

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

(A) Interest rate risk:

Interest rate risk is the risk that fair values or 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 resources to fund the mortgages. As described in note 12, units are retractable by Unitholders upon 30 days' notice. A significant rise in interest rates may cause Unitholders to retract their Units and could cause a shortfall in funds available to meet such retractions. The Trust manages interest rate risk by generally investing in short term variable rate mortgages with floor rates which are greater than the rate charged by its lenders. The Trust also charges a 1% penalty on retractions made prior to units' first year anniversary.

As at December 31, 2018, a 0.5% increase/decrease in interest rates with all other variables held constant would increase/decrease the Trust's income by approximately $2,551,727 (2017 - $1,714,000), arising mainly as a result of higher interest income generated on variable rate mortgage investments.

17. Financial instruments and risk management (continued):

(a) Fair value (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 Canadian dollars however the Trust invests in mortgages and investments in associated and joint ventures that are denominated in US dollars.

The Trust has put in place steps to mitigate impacts from fluctuations in foreign exchange as the Trust has entered into forward exchange contracts to manage its foreign exchange exposure. As at December 31, 2018, the Trust was participating in forward exchange contracts to sell US dollars totaling $197,883,814 (2017 - $139,943,033). The foreign currency derivatives are marked-to-market on the consolidated statement of financial position and the fair value as at December 31, 2018 is a liability of $1,569,937 (2017 - asset $2,341,631). The foreign currency derivatives are entered into by the Mortgage Broker on behalf of the Trust with third party financial institutions.

The table below indicates the foreign currency to which the Trust had unhedged exposure at December 31, 2018 and 2017. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if Canadian dollar had strengthened or weakened by 5% in relation to the other currency, with all other variables held constant.

Increase (decrease) in CAD:

2018

Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 618,217	$ 30,911
% of net assets attributable to redeemable units	0.08%	0.00%

2017

Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars	$ 1,175,930	$ 58,797
% of net assets attributable to redeemable units	0.23%	0.01%

17. Financial instruments and risk management (continued):

(a) Fair value (continued):

(iii) Market risk (continued):

(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 and development projects through its investments in associates and joint ventures. These risks arise from changes in the real estate market and could be local, national, and global in nature. Deteriorating real estate values increase the Trust's risk. The Trust manages these risks by actively maintaining strong borrower relationship and active monitoring of all loans. Further, the Trust has diversified its portfolio of investment mortgages geographically to manage this risk.

18. Transition to IFRS 9:

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

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 relates solely to impairment in the amount of $519,290 and which has been recognized in net assets attributable to holders of redeemable units as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9.

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

— The determination of the business model in which a financial asset is held and whether it meets the SPPI test.

— The designation of certain financial assets and financial liabilities as measured at FVTPL.

18. Transition to IFRS 9 (continued):

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

	Classification Old (IAS 39)	New (IFRS 9)
Financial assets:		
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accrued interest receivable	Loans and receivables	Amortized cost
Foreign currency derivatives	FVTPL	FVTPL
Other receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Promissory notes receivable	Loans and receivables	Amortized cost
Investments in mortgages	Loans and receivables	Amortized cost
Investments in mortgages with embedded derivatives – loan portion	Loans and receivables	FVTPL
Investments in mortgages with embedded derivatives – embedded derivative portion	FVTPL	FVTPL
Financial liabilities:		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Foreign currency derivatives	FVTPL	FVTPL
Distributions payable on redeemable units	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost
Redeemable units, representing net assets attributable to holders of redeemable units	Other financial liabilities	Amortized cost

19. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2018 was $781,177,566 (2017 - $513,966,486).

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. To secure the additional capital necessary to pursue these plans, the Trust may attempt to raise additional funds through the issuance of additional units.

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