Consolidated Financial Statements
(Expressed in Canadian dollars)

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

And Independent Auditor's Report thereon

Year ended December 31, 2022

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of income (loss) for the year then ended
- the consolidated statement of comprehensive income (loss) for the year then ended
- the consolidated statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit; and

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
April 21, 2023

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Assets			
Cash and cash equivalents		$ 90,099,506	$ 165,364,013
Foreign currency derivatives and margin deposits	11	43,370,100	28,400,630
Investments in mortgages	4	851,981,951	719,309,067
Investments held at fair value	6	358,769,124	176,681,558
Investments in joint ventures	5	7,098,258	4,910,545
Investments in associates	7	4,971,360	5,937,162
Promissory notes receivable	9	182,481	488,946
Due from related party	12(g)	7,658,395	4,286,193
Other assets		8,440,203	15,833,746
		$ 1,372,571,378	$ 1,121,211,860
Equity			
Accumulated other comprehensive income (loss)		$ 236,913	$ (37,094)
Non-controlling interests	12(e)	14,223,931	4,331,270
		14,460,844	4,294,176
Liabilities and Net Assets Attributable to Holders of Redeemable Units			
Secured borrowing	13	219,075,455	173,225,459
Accounts payable and accrued liabilities		2,827,304	3,129,415
Mortgage syndication liabilities	4(a)	98,479,141	11,046,862
Management and incentive fees payable	12(a)	8,985,156	-
Due to related parties		382,559	1,650,421
Distributions payable to holders of redeemable units	8(b)	5,193,247	2,990,952
Loan Payable		5,573,545	11,280,302
Interest Payable		70,685	31,935
Foreign currency derivatives	11	28,567,221	-
		369,154,313	203,355,346
Redeemable units, representing net assets attributable to holders of redeemable units	8	988,956,221	913,562,338
		$ 1,372,571,378	$ 1,121,211,860

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

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

(Signed) *"John Maragliano"*
Director

(Signed) *"Dean Kirkham"*
Director

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

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

Year ended December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Revenue:			
Interest income		$ 86,464,154	$ 71,252,983
Interest expense on mortgage syndication liabilities		(2,171,927)	(408,561)
		84,292,227	70,844,422
Expenses:			
Management and incentive fees	12(a)	23,624,359	10,023,167
Foreign exchange (gain) loss		(92,080)	452,769
General and administrative		5,635,685	5,091,198
Provision for mortgage losses	4(c)	2,757,520	377,000
		31,925,484	15,944,134
Gain from investment in joint ventures	5	1,758,129	377,956
Loss from investment in associates	7	(1,976,324)	(637,429)
Realized fair value gains on investments held at fair value	6	14,859,526	3,453,467
Unrealized fair value gain on investment held at fair value	6	15,145,392	7,996,557
Other income		1,255,319	1,946,749
Income from operations		83,408,784	68,037,588
Financing costs:			
Interest expense		17,326,859	12,485,530
Distributions to holders of redeemable units	8(b)	68,484,822	55,229,530
		85,811,681	67,715,060
Net (loss) income for the year		$ (2,402,897)	$ 322,528
Net (loss) income attributable to:			
Holders of redeemable units		$ (3,031,520)	$ (424,351)
Non-controlling interests	12(e)	628,623	746,879
		$ (2,402,897)	$ 322,528

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

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

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

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
(Loss) income for the year	$ (2,402,897)	$ 322,528
Other comprehensive income:		
Translation adjustment to arrive at presentation currency of Canadian dollars	274,007	47,353
Comprehensive (loss) income end of year	$ (2,128,890)	$ 369,881
Net comprehensive (loss) income attributable to:		
Net assets attributable to holders of redeemable units	$ (2,757,513)	$ (376,998)
Non-controlling interests	628,623	746,879
	$ (2,128,890)	$ 369,881

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

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

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

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Balance, beginning of the year	$ 913,562,338	$ 755,063,587
Income (loss) attributable to holders of redeemable units	(3,031,520)	(424,351)
Contributions and redemptions:		
Issuance of units	243,531,226	272,640,842
Reinvestment of distributions on redeemable units	26,223,945	19,879,497
Redemptions	(191,329,768)	(133,597,237)
	78,425,403	158,923,102
Balance, end of year	$ 988,956,221	$ 913,562,338

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

TREZ CAPITAL YIELD TRUST US (CANADIAN $)

Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operating activities:		
(Loss) income for the year	$ (2,402,897)	$ 322,528
Items not involving cash:		
Interest income, net of interest expense on syndications	(84,292,227)	(70,844,422)
Gain from investments in joint ventures	(1,758,129)	(377,956)
Loss from investments in associates	1,976,324	637,429
Fair value gain on Investments held at fair value	(14,859,526)	(3,453,467)
Unrealized fair value gain on investment held at fair value	(15,145,392)	(7,996,557)
Foreign exchange translation	(66,271,102)	5,702,144
Provision for mortgage losses	2,757,520	377,000
Distributions to holders of redeemable units	68,484,822	55,229,530
Unrealized (gain) loss on forward currency derivatives	29,014,050	7,835,636
Interest payable	(31,935)	31,935
Interest received	38,663,493	22,926,862
Promissory note receivable	306,465	2,475,729
Changes in non-cash operating working items:		
Margin deposits	(15,416,299)	(8,039,165)
Other assets	7,393,543	(13,735,943)
Management and incentive fees payable	8,985,156	(1,156,786)
Accounts payable and accrued liabilities	(302,111)	(3,064,750)
	(42,898,244)	(13,130,253)
Investing activities:		
Funding of investments in mortgages	(1,140,578,923)	(1,000,087,556)
Repayments on investments in mortgages including syndications	809,865,064	1,004,254,399
Contributions (distributions) to joint ventures	(301)	3,587,778
Contributions (distributions) to investment in associates	(663,845)	(2,307,027)
Contributions (distributions) to Investments held at fair value	242,030,969	(86,009,921)
Contributions (distributions) to non-controlling interests	9,264,038	(57,674)
	(80,082,998)	(80,620,001)
Financing activities:		
Distributions paid	(40,058,583)	(35,353,973)
Issuance of units	243,531,226	272,640,842
Redemption of units	(191,329,768)	(133,597,237)
Due to (from) related parties	(4,640,064)	(2,644,430)
Secured borrowing	45,849,996	19,687,408
Proceeds loan payable	(5,636,072)	11,280,302
	47,716,735	132,012,912
Increase (decrease) in cash and cash equivalents	(75,264,507)	38,262,658
Cash and cash equivalents, beginning of year	165,364,013	127,101,355
Cash and cash equivalents, end of year	$ 90,099,506	$ 165,364,013

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

1. Nature of business:

Trez Capital Yield Trust US (Canadian $) (the "Trust") is an unincorporated trust established under the laws of British Columbia pursuant to a Declaration of Trust dated December 8, 2016 (the "Declaration of Trust").

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

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

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

2. Basis of preparation:

(a) Statement of compliance:

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

These consolidated financial statements were authorized for issue by the Board of Governors on April 21, 2023.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

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

2. Basis of preparation (continued):

(d) Use of estimates and judgments:

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

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

(*i*) Investments in mortgages:

The Trust is required to make an assessment of forward looking ‘expected credit losses’ (“ECL”) for investments in mortgages. The expected credit loss model is further explained in Note 3(h)(*ii*). The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary by a material amount.

(*ii*) Investments held at fair value:

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

The Trust estimates the value of these investments based on its assessment of the current lending market for mortgages of same or similar terms. Should the underlying assumptions around current market interest rates change, the estimated future cash flows and income could vary affecting fair value.

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

The Trust has determined for these entities that it has neither control, joint control or significant influence as the Trust has no ability to control or influence any of the relevant activities and has therefore measured the investments at fair value in accordance with IFRS 9.

2. Basis of preparation (continued):

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

(*iii*) Investments in associates:

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

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

(*iv*) Investments in jointly controlled entities:

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

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

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

3. Significant accounting policies:

(a) Basis of presentation:

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

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

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

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

3. Significant accounting policies (continued):

(a) Basis of presentation (continued):

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

The Trust owns and consolidates the following material subsidiaries:

	Province of Registration	Percentage of ownership
Trez Capital (2018) Nominee LP	British Columbia	100%
Trez Capital Yield Trust US C$ Sub-Trust	British Columbia	100%
Trez Capital Yield Trust US C$ Equities LP	British Columbia	100%
Trez Capital Yield Trust US C$ Blocker Corp	Delaware	100%
Trez Camperdown LP	British Columbia	85%
TC LB LP	British Columbia	80%
TC LB Aspen Meadows LP	British Columbia	80%
TC LB Bella Vita LP	British Columbia	80%
TC LB Heron Bay LP	British Columbia	80%
TC LB Royal Pines LP	British Columbia	80%
TRCH Elm Creek LP	British Columbia	82%
TCL Land BK3 LP	British Columbia	82%
TCL Land BK4 LP	British Columbia	82%
Trez Capital HBL LP	British Columbia	82%

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

During 2022, the Trust made investments in TCL Land BK3 LP, TCL Land BK4 LP and Trez Capital HBL LP. All these investments were established to facilitate land banking transactions with either 95% or 99% funding provided as a mortgage.

During 2022, the Trust ceased to control Trez Capital Avilla Trails LP, a subsidiary 100% owned in the prior year. As a result, profit and loss and net assets of the former subsidiary were not consolidated in the Trust’s consolidated financial statements as at December 31, 2022 and instead recognized as investment in an unconsolidated structured entity within investments held 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 U.S. domiciled financial institutions, financing real estate projects and land banking.

(b) Cash and cash equivalents:

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

(c) Margin deposits:

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

3. Significant accounting policies (continued):

(d) Promissory notes receivable:

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

(e) Redeemable units:

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

(f) Revenue recognition:

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

(g) Distributions on redeemable units:

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

(h) Financial instruments:

(i) Recognition, classification and measurement of financial assets and liabilities:

Under IFRS 9, on initial recognition, a financial asset is measured at fair value and subsequently classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI")-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.

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

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

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

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

The Trust has classified its financial instruments as follows:

	Classification
Financial assets:	
Cash and cash equivalents	Amortized cost
Foreign currency derivatives and margin deposits	FVTPL
Investments in mortgages	Amortized cost / FVTPL
Investments held at fair value	FVTPL
Promissory notes receivable	Amortized cost
Due from related party	Amortized cost
Other assets	Amortized cost
Financial liabilities:	
Secured borrowing	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Management and incentive fees payable	Amortized cost
Due to related parties	Amortized cost
Distribution payable to holders of redeemable units	Amortized cost
Mortgage syndication liabilities	Amortized cost
Redeemable units, representing net assets attributable to holders of redeemable units	Amortized cost

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(ii) Impairment:

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

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

Performing financial assets:

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

Impaired financial assets:

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

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*ii*) Impairment (continued):

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

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

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

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

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

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*ii*) Impairment (continued):

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

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

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

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

(A) Financial assets:

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

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

(B) Financial liabilities:

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

(*iv*) Loan modifications:

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

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

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

3. Significant accounting policies (continued):

(h) Financial instruments (continued):

(*iv*) Loan modifications (continued):

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

(i) Accumulated other comprehensive income:

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

(j) Income taxes:

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

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

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

3. Significant accounting policies (continued):

(k) New standards adopted effective January 1, 2022:

In August 2022, the IASB published the Interest Rate Benchmark Reform - Phase 2, which amends IFRS 9, *Financial Instruments*; IAS 39, *Financial Instruments: Recognition and Measurement*; IFRS 7, *Financial Instruments: Disclosure*; IFRS 1, *Insurance Contracts*; and IFRS 16, *Leases*. The Phase 2 amendments addressed issues that may affect financial reporting related to financial instruments and hedge accounting resulting from the reform of an interest rate benchmark. Interest rate benchmarks are referenced in financial instruments globally, including loan products, investments, variable rate notes, and derivatives (hedges), among others. Over the past few years, the IASB has issued amendments to financial reporting standards on interest rate benchmark reform, with requirements to commence transition from the prominent Interbank Offer Rates (“IBOR”) to Alternative Benchmark Rates (“ABR”).

The Trust has applied the IASB’s Phase 1 and 2 Amendments to IFRS 9 Financial Instruments: Recognition and Measurement, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures. Phase 1 modified certain hedge accounting requirements to provide relief from the uncertainty arising from IBOR reform during the period prior to replacement of IBORs. The Trust does not apply hedge accounting. Phase 2 addresses issues that arise from implementation of IBOR reform. The amendments provide a practical expedient for modification of a financial contract and allow relief from discontinuing hedging relationships, in combination with new disclosures on the nature and extent of risks arising from the reform and how these risks are managed. The assessment of the impact on the Trust’s mitigation plans are still in progress.

As a result of the transition, the Trust is exposed to operational and financial risks. The operational risks include the review and updating of contractual terms where needed, and the revision of processes related to the reform and regulatory risks. Financial risk is mostly related to interest rate risk.

To mitigate these risks, the Manager of the Trust will monitor the transition. Transition activities underway with contracted third parties include an evaluation of all instruments that reference IBOR, with the aim of determining whether contracts need to be amended or whether they already include a fallback clause. A contract that is not yet transitioned is referred to as an unreformed contract when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. As this work progresses, the magnitude of reformed versus unreformed contracts, as well as the expected dates of transition, will become known.

The Trust’s unreformed financial instruments as at December 31, 2022 for which contracts are indexed to US dollar LIBOR and will mature after June 30, 2023 comprise investments in mortgages and secured borrowings. The alternative benchmark rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR).

3. Significant accounting policies (continued):

(l) Standards issued but not yet effective:

At December 31, 2022, a number of standards and amendments to standards had been issued by the IASB but are not yet effective for these consolidated financial statements. Those which are relevant to the Trust's consolidated financial statements are set out below:

(*i*) Definition of accounting estimates:

On February 12, 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*) to help entities to distinguish between accounting policies and accounting estimates. The amendments introduce a new definition for accounting estimates by clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for the Trust's fiscal year beginning January 1, 2023 with early adoption permitted and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after start of that period. The Trust is in the process of assessing the impact of these amendments.

(*ii*) Disclosure of accounting policies:

In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures. The amendments to IAS 1 require companies to disclose their material accounting policies rather than their significant accounting policies. The amendments are effective for the Trust's fiscal year beginning January 1, 2023 with early adoption permitted. The Trust is in the process of assessing the impact of these amendments.

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

4. Investments in mortgages:

The Trust holds mortgages on the following types of properties:

	2022		2021	
Property type	Number	Amount	Number	Amount
Residential	96	$ 550,576,890	97	$ 535,157,774
Office	2	110,931,040	2	108,564,147
Industrial	3	18,212,247	-	-
Retail	1	9,051,705	1	50,358
Mixed Use	5	63,079,920	-	-
Other	2	1,271	8	61,149,598
Total mortgages	109	751,853,073	108	704,921,877
Mortgage syndications		98,479,141		11,046,862
Accrued interest		7,134,257		6,067,328
Less: Provision for mortgage losses (Note 4(c))		(5,484,520)		(2,727,000)
Investment in mortgages		$ 851,981,951		$ 719,309,067

Included in total mortgages of $751,853,073 (2021 - $704,921,877) are mortgages measured at amortized costs totaling $628,603,452 (2021 - $662,032,497) and mortgages measured at fair value totaling $123,249,621 (2021 - $42,889,380).

	2022		2021	
Property location	Number	Amount	Number	Amount
Texas	55	$ 372,657,494	49	$ 302,379,023
Florida	18	87,321,341	19	44,690,678
Washington	4	22,779,613	2	18,545,575
South Carolina	4	117,298,446	3	113,000,464
Arizona	12	93,991,928	10	97,914,320
Georgia	7	33,910,965	7	15,437,416
North Carolina	1	480,493	3	7,943,514
Oregon	1	1,505,634	1	7,269,820
Pennsylvania	1	3,309,817	1	1,095,667
Colorado	2	6,537,844	1	9,910,338
Oklahoma	2	2,117,646	1	391,134
Indiana	1	5,423,238	-	-
Alabama	1	4,518,614	-	-
Tennessee	-	-	1	48,442,769
Utah	-	-	3	10,244,254
Nevada	-	-	1	16,202,640
Michigan	-	-	1	6,040,495
California	-	-	1	1,250,117
Idaho	-	-	3	4,163,148
Ohio	-	-	1	505
Total mortgages	109	$ 751,853,073	108	$ 704,921,877

The mortgages are secured by the real estate to which they relate, bear interest at a weighted average interest rate of 14.20% (2021 - 9.33%).

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

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

4. Investments in mortgages (continued):

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

Maturity period	Number	Amount
Past due	2	$ 25,940,072
Past due but not credit impaired	2	21,832,660
2023	48	390,350,903
2024	37	185,380,733
2025	13	82,167,653
2026 and beyond	7	46,181,052
	109	$ 751,853,073

(a) Mortgage syndication liabilities:

The Trust has entered into certain mortgage participation agreements with third party lenders, whereby, the third party lenders take the senior position and the Trust retains the subordinated position, all of which is secured by first mortgage positions. As a result, the senior lenders' position is recorded as a non-recourse mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in the consolidated statement of comprehensive loss. The Trust also retains an option, not the obligation, to repurchase the senior position at a price equal to the outstanding principal amount of the senior lenders' share together with accrued interest.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Trust recognizing the participating mortgages and corresponding mortgage syndication liabilities on its statement of financial position. The carrying value, which the Manager believes equates to the fair value, of the transferred assets and corresponding liabilities is $98,479,141 (2021 - $11,046,862).

(b) Provision for mortgage losses:

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

	December 31, 2022			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 401,387,197	$ -	$ 25,940,072	$ 427,327,269
Office	110,931,040	-	-	110,931,040
Industrial	18,212,247	-	-	18,212,247
Retail	9,051,705	-	-	9,051,705
Mixed Use	63,079,920	-	-	63,079,920
Other	1,271	-	-	1,271
	$ 602,663,380	$ -	$ 25,940,072	$ 628,603,452

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

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

	December 31, 2021			
Gross carrying amount	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 492,268,393	$ -	$ -	$ 492,268,393
Office	108,564,147	-	-	108,564,147
Retail	50,358	-	-	50,358
Other	61,149,598	-	-	61,149,598
	$ 662,032,496	$ -	$ -	$ 662,032,496

	December 31, 2022			
Provision for mortgage losses	Stage 1	Stage 2	Stage 3	Total
Property type:				
Residential	$ 4,868,520	$ -	$	$ 4,868,520
Office	31,000	-	-	31,000
Industrial	11,000	-	-	11,000
Retail	1,000	-	-	1,000
Mixed Use	567,000	-	-	567,000
Other	6,000	-	-	6,000
	$ 5,484,520	$ -	$ -	$ 5,484,520

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

The provision for mortgage losses at December 31, 2022 is $5,484,520 (2021 - $2,727,000). This provision represents management's estimate of the ECLs on mortgages in the Trust's portfolio that have not experienced a significant increase in credit risk since initial recognition ("Stage 1"). The ECL was assessed individually for each investment in mortgages and commitments classified as Stage 2 and Stage 3. Management estimated the ECL for these as nil, primarily due to the mortgage collateral held on the mortgages.

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

4. Investments in mortgages (continued):

(b) Provision for mortgage losses (continued):

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

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
December 31, 2021	$ 2,727,000	$ -	$ -	$ 2,727,000
Provision for mortgage losses:				
Transfers to Stage 1[1]	-	-	-	-
Transfers to Stage 2[1]	-	-	-	-
Transfers to Stage 3[1]	-	-	-	-
Net remeasurement[2]	1,810,520	-	-	1,810,520
Mortgage advances	3,298,000	-	-	3,298,000
Mortgage repayments	(2,351,000)	-	-	(2,351,000)
Write-offs	-	-	-	-
Total movement	2,757,520	-	-	2,757,520
December 31, 2022	$ 5,484,520	$ -	$ -	$ 5,484,520

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	$ 2,350,000	$ -	$ -	$ 2,350,000
Provision for mortgage losses:				
Transfers to Stage 1[1]	7,000	-	-	7,000
Transfers to Stage 2[1]	-	-	-	-
Transfers to Stage 3[1]	-	-	-	-
Net remeasurement[2]	(296,000)	-	-	(296,000)
Mortgage advances	2,002,000	-	-	2,002,000
Mortgage repayments	(1,336,000)	-	-	(1,336,000)
Write-offs	-	-	-	-
Total movement	377,000	-	-	377,000
December 31, 2021	$ 2,727,000	$ -	$ -	$ 2,727,000

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

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

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

5. Investments in joint ventures:

	Equity investment December 31, 2021	Net contributions (distributions)	Shares of earnings (loss)	Impact of foreign exchange translation	Equity investment December 31, 2022
HT HWY 66 LP [(a)]	$ 1,234,976	$ -	$1,758,129	$ 163,255	$ 3,156,360
Trail Creek Partners Ltd [(b)]	3,675,569	301	-	266,028	3,941,898
Total	$ 4,910,545	$ 301	$1,758,129	$ 429,283	$ 7,098,258

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

(a) HT HWY 66 LP:

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

(b) Trail Creek Partners Ltd:

During 2021, the Trust, through its wholly-owned subsidiary, Trez Capital Yield Trust US (Canadian$) Sub-Trust, acquired a 64.29% interest in Trail Creek Partners Ltd. The Trust has determined that it has joint control over Trail Creek Partners Ltd. and accounts for its investment using the equity method.

Trail Creek Partners Ltd. has been entered into with established property developers in Texas to enable the Trust to benefit from local real estate expertise while pursuing returns from its investments.

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

5. Investments in joint ventures (continued):

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

	2022	2021
Total assets	$ 31,973,107	$ 47,213,397
Total liabilities	38,347,273	26,452,711
Revenue (loss)	(5,692,670)	2,324,446
Expenses	7,928,751	2,810,978
Net income (loss)	(13,621,421)	(486,532)

During the year ended December 31, 2022, the Trust recorded income (loss) from joint ventures of $1,758,129 (2021 - income of $377,956). As at December 31, 2022, the Trust's total investment in joint ventures is $7,098,258 (2021 - $4,910,545).

6. Investments held at fair value:

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

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

Type of structure entity	Nature and purpose	Interest held by the Trust
Limited partnerships participating in loan sharing	Limited partnerships created to enable the Trust to enter loan sharing arrangements with US domiciled financial institutions. The limited partnerships are financed by capital contributed by the Trust and entities related to the Trust in the form of limited partnership units and credit facilities with US domiciled financial institutions.	Investment in limited partnership units
Limited partnerships participating in preferred investment in real estate projects	Limited partnerships created to hold real estate projects in the U.S. Investments made by the Trust earn fixed monthly interest income from their preferred investment. Common equity investments in the limited partnerships are funded by entities related to the Manager The limited partnerships are financed by preferred investment by the Trust and entities related to the Trust, as well as common equity funded by entities related to the Trust.	Investment in preferred limited partnership units
Limited partnerships participating in land banking	Limited partnerships created to facilitate land banking transactions. The limited partnerships are financed by capital contributed in the form of limited partnership units by the Trust and entities related to the Trust and credit facilities by the Trust and entities related to the Trust.	Investment in limited partnership units

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

6. Investments held at fair value (continued):

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

December 31, 2022	Number of Limited Partnerships	Total assets	Carrying amount included in investments held at fair value
Investments in Limited Partnerships			
Loan sharing	16	$ 1,846,775,276	$ 258,765,821
Real estate investments	5	204,234,584	99,575,895
Land banking	1	5,313,197	427,408
	22	$ 2,056,323,057	$ 358,769,124

December 31, 2021	Number of Limited Partnerships	Total assets	Carrying amount included in investments held at fair value
Investments in Limited Partnerships			
Loan sharing	11	$ 781,588,662	$ 113,385,605
Real estate investments	4	112,757,955	63,295,953
	15	$ 894,346,617	$ 176,681,558

During 2022, a change in fair value of $30,004,917 was recorded (2021 - $11,450,024). Included within the change in fair value is realized net interest income of $14,859,526 (2021 - $3,453,467). The unrealized portion of net interest income was $15,145,392 (2021 - $7,996,557).

In the event a mortgage investment held by a structured entity enters default, the Trust may have the obligation to repay the third-party loan sharing partner. At December 31, 2022 the total amount of third party loan sharing the Trust is committed to repay in event of default was $349,549,379(2021 - $142,086,208).

At December 31, 2022, one mortgage held by a structured entity totaling $12,148,314 was in default (2021 - nil). At the date of default the Trust repaid the senior loan sharing partner $6,622,724.

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

7. Investments in associate:

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

	Balance, December 31, 2021	Net contributions (distributions)	Share of earnings (loss)	Impact of foreign exchange translation	Balance, December 31, 2022
UC Aspen Place LP (66.4% interest)	$ 5,937,162	$ 781,436	$ (2,089,174)	$ 341,936	$ 4,971,360
Centro FC, Inc.	-	(117,592)	112,850	4,742	-
Total	$ 5,937,162	$ 663,844	$ (1,976,324)	$ 346,678	$ 4,971,360

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

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

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

	2022	2021
Total assets	$ 44,217,049	$ 82,545,804
Total liabilities	38,546,629	60,931,897
Revenue	2,062,128	5,819,315
Expenses	5,313,046	10,208,937
Net income (loss)	(3,250,918)	(4,389,622)

During the year ended December 31, 2022, the Trust recorded loss from its equity accounted investments in associates of $1,976,324 (2021 - loss of $637,429). As at December 31, 2022, the Trust's total investment in associates in which the Trust has significant influence is $4,971,360 (2021 - $5,937,162).

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

(a) As at December 31, 2022, the Trust has authorized an unlimited number of Series A, Series F and Series I redeemable, non-transferrable Units. The $10 Units are issued in Canadian dollars in accordance with the Offering Memorandum of the Trust, dated February 10, 2018.

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

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

	2022			2021		
CDN Class A units	Number		Amount	Number		Amount
Issued and outstanding, beginning of year	5,787,154	$	57,667,847	6,122,448	$	61,047,608
Issued for cash	3,363,319		33,633,191	1,489,174		14,891,740
Issued for reinvested distributions	216,607		2,166,073	212,817		2,128,171
Redeemed for cash	(1,073,310)		(10,733,097)	(1,815,277)		(18,152,767)
Transfer between classes	(264,630)		(2,646,297)	(222,008)		(2,220,084)
Increase (decrease) in net assets	-		(244,958)	-		(26,821)
Issued for top up	9,260		92,600	-		-
Consolidation of Units	-		-	-		-
Issued and outstanding, end of year	8,038,400		79,935,359	5,787,154		57,667,847
Accumulated other comprehensive Income (loss)	-		19,149	-		(2,810)
Cumulative IFRS 9 Stage 1 provisions	-		443,303	-		206,500
	8,038,400	$	80,397,811	5,787,154	$	57,871,537

	2022			2021		
CDN Class F units	Number		Amount	Number		Amount
CDN Class F Units issued and outstanding, beginning of year	51,858,095	$	517,036,502	42,215,229	$	420,848,012
Issued for cash	15,418,648		154,186,474	16,904,395		169,043,950
Issued for reinvested distributions	1,677,376		16,773,762	1,480,431		14,804,311
Redeemed for cash	(10,977,964)		(109,779,635)	(8,347,547)		(83,475,470)
Transfer between classes	(5,338,202)		(53,382,026)	(394,413)		(3,944,136)
Increase (decrease) in net assets	-		(1,605,270)	-		(240,165)
Issued for top up	55,984		559,843	-		-
Issued and outstanding, end of year	52,693,937		523,789,650	51,858,095		517,036,502
Accumulated other comprehensive Income (loss)	-		125,478	-		(21,298)
Cumulative IFRS 9 Stage 1 provision	-		2,904,815	-		1,565,741
	52,693,937	$	526,819,943	51,858,095	$	518,580,945

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

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

(a) (continued):

	2022			2021		
CDN Class I units	Number		Amount	Number		Amount
Issued and outstanding, beginning of year	33,979,976	$	338,857,989	27,395,237	$	273,167,967
Issued for cash	5,571,156		55,711,561	8,870,515		88,705,152
Issued for reinvested distributions	643,708		6,437,074	294,702		2,947,015
Redeemed for cash	(7,081,704)		(70,817,035)	(3,196,900)		(31,969,000)
Transfer between classes	5,602,832		56,028,323	616,422		6,164,220
Increase (decrease) in net assets	-		(1,181,293)	-		(157,365)
Issued for top up	19,460		194,593	-		-
Issued and outstanding, end of year	38,735,428		385,231,212	33,979,976		338,857,989
Accumulated other comprehensive income (loss)	-		92,285	-		(12,987)
Cumulative IFRS 9 Stage 1 provision	-		2,136,402	-		954,759
	38,735,428	$	387,459,899	33,979,976	$	339,799,761

	2022			2021		
CDN Total units	Number		Amount	Number		Amount
Issued and outstanding, beginning of year	91,625,225	$	913,562,338	75,732,914$	$	755,063,587
Issued for cash	24,353,123		243,531,226	27,264,084		272,640,842
Issued for reinvested distributions	2,537,691		25,376,909	1,987,950		19,879,497
Redeemed for cash	(19,132,978)		(191,329,768)	(13,359,724)		(133,597,237)
Increase (decrease) in net assets	-		(3,031,520)	-		(424,351)
Issued for top up	84,704		847,036	-		-
Issued and outstanding, end of year	99,467,765		988,956,221	91,625,224		913,562,338
Accumulated other comprehensive income (loss)	-		236,913	-		(37,095)
Cumulative IFRS 9 Stage 1 provision	-		5,484,520	-		2,727,000
	99,467,765	$	994,677,654	91,625,224	$	916,252,243

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

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

The total distribution to be made in respect of the December 31 year-end will at least equal 100% of the Trust's taxable income including gains and losses for tax purposes relating to fluctuations of the U.S. dollar relative to the Canadian dollar, as explained in Note 10.

For the year ended December 31, 2022, the Trust has declared distributions totaling $68,484,822 (2021 - $55,229,530).

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

(b) The Trust distributes to its Unitholders taxable income including taxable capital gains (continued):

For the year ended December 31, 2022, the taxable income of the Trust was $70,731,948 (2021 - $58,613,127) and the accounting income of the Trust attributable to holders of redeemable units, before distributions was $68,484,822 (2021 - $55,229,530). In accordance with its trust indenture, the Trust distributed an amount equal to accounting income. The difference of $2,247,126 (2021 - $3,383,597) between accounting income and taxable income is distributed via units issuance, which are subsequently consolidated at the same time ("notional distribution for tax purposes").

The distribution declared and payable as at December 31, 2022 was $5,193,247 (2021 - $2,990,952) and distributed to the Unitholders subsequent to December 31, 2022.

9. Promissory notes receivable:

		2022		2021
Unsecured, interest free promissory note due on demand from an affiliated entity[a]	$	182,481	$	488,946

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

10. Income taxes:

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

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

For purposes of the Tax Act, the Trust is required to compute its Canadian tax results using Canadian currency. Where an amount that is relevant in computing the Trust's Canadian tax results is expressed in U.S. dollars, such amount must be converted to Canadian currency, generally using the rate of exchange on the day such amount arose. As a result, the Trust may realize gains and losses for tax purposes by virtue of the fluctuation of the value of the U.S. dollar relative to Canadian dollar. Any net gain realized by the Trust for a particular taxation year may be made payable to Unitholders and is thus required to be included in computing Unitholders' income for Canadian tax purposes.

The Trust holds certain investments in joint ventures based in the U.S. These investments in associates and joint ventures are held by wholly-owned subsidiaries, which are required to pay income taxes to the U.S. Internal Revenue Service based on their determination of taxable income for U.S. tax purposes. Accordingly, current income tax recognized in the consolidated statement of comprehensive loss is based on the subsidiaries U.S. taxable income for the year. Current tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period.

The Trust intends to distribute at least 100% of the Trust's taxable income, including foreign exchange gains/losses for the 2022 fiscal period.

11. Foreign currency derivatives and margin deposits:

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange as the Trust has entered into foreign exchange contracts to manage most of its foreign exchange exposure. As at December 31, 2022, the Trust was participating in forward exchange contracts to buy and sell Canadian dollars totaling $1,017,972,691 (2021 - $843,141,021). The foreign currency derivatives are marked-to-market on the statement of financial position and the fair value as at December 31, 2022 is a liability of $28,567,221 (2021 - asset of $446,829). The foreign currency derivatives are entered directly by the Trust with third party financial institutions. As at December 31, 2022, the margin deposit on foreign exchange contracts, which is considered a restricted cash balance, totalled $43,370,100 (2021 - $27,953,801).

12. Related party transactions and balances:

Related party transactions that are not disclosed elsewhere in these consolidated financial statements are as follows:

- The Trust invests in mortgages alone or on a participation basis with parties related to the Manager. Title to mortgages is held by nominee corporations as Trustee, on behalf of the beneficial owners of the mortgages. In addition, certain duties are performed by the Mortgage Broker.
- The Manager and Mortgage Broker are related to the Trust through common control. In cases where mortgages are held on a participation basis:
  - The Trust's rights are as outlined in the Declaration of Trust and a Mortgage Participation and Servicing Agreement with the Mortgage Broker;
  - Pursuant to this agreement, the Mortgage Broker agrees to administer and service the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's underwriter, servicer and syndicator; and
  - The Mortgage Broker performs certain duties including registering the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.

(a) Management and incentive fees:

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

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

12. Related party transactions and balances (continued):

(a) Management and incentive fees (continued):

During the year ended December 31, 2022, the Trust incurred management and incentive fees before waivers in the amount of $24,507,359 (2021 - $19,424,972). For the year ended December 31, 2022, the Manager has agreed to waive incentive fees in the amount of $883,000(2021 - $5,724,830) and management fees of nil (2021 - 3,676,974). Any fees waived are no longer collectible in the current or future years.

At December 31, 2022, $8,985,156 (2021 - nil) of the current management and incentive fee was payable to the Manager, and nil (2021 - $1,068,708) were due from the Manager.

The Manager is responsible for the expenses of the initial offering of units, other than brokerage fees, as well as employment expenses of its personnel, rent and other office expenses. The Manager is not responsible for any taxes payable by the Trust or to which the Trust may be subject. The Trust will reimburse the Manager for all expenses incurred in the management of the Trust except as previously noted.

(b) Other operating expenses:

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

(c) Transfer of investments in mortgages:

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

During the year ended December 31, 2022, the Trust purchased investments in mortgages of $43,619,738 (2021 - $90,893,487) from, and sold investments in mortgages of $174,334,013 (2021 - $206,119,930) to entities under common management.

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

The Trust has invested in a mortgage portfolio with a balance at December 31, 2022 of $751,853,073 (2021 - $704,921,877), virtually all of which are made on a participation basis with related funds and parties. The Trust has invested in Investments held at fair value created to enable the Trust to enter into loan sharing arrangements with US domiciled financial institutions and real estate development. The balance at December 31, 2022 was $358,769,124 (2021 - $176,681,558), virtually all of which is made on a participation basis with related parties.

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

12. Related party transactions and balances (continued):

(e) Non-controlling interest:

Included in non-controlling interests on the consolidated statement of financial position is $14,223,931 (2021 - $4,331,270) which is held by entities related under common management. The non-controlling interests relate to the Trust's investments in TC LB LP, TC LB Aspen Meadows LP, TC Bella Vita LP, TC LB Heron Bay, TC LB Royal Pines LP of which non-controlling interest holds 20% interest, investments in TRCH Elm Creek LP, TCL Land BK3 LP, TCL Land BK4 LP, Trez Capital HBL LP of which the non-controlling interest holds 18% interest, and investment in Trez Camperdown LP of which the non-controlling interest holds 15% interest.

During the year ended December 31, 2022, the Trust has allocated $628,623(2021 - $746,879) of net income to the non-controlling interest.

(f) Co-investment in associates:

The Trust has co-invested in associates with a related party by virtue of common management. As at December 31, 2022, the Trust holds 66.4% and the related party holds 16.6% interest in investment in associates.

(g) Amounts due from related parties:

Amounts due from related parties at December 31, 2022 were $7,658,395 (2021 - $4,286,193) relating amounts receivable for invoices paid on behalf of related parties.

13. Secured borrowing:

	2022	2021
U.S. dollar indebtedness from a private company with maximum indebtedness of $100,000,000 US dollars, bearing interest at LIBOR plus 7.0% per annum compounded and payable monthly and with maturity date of November 16, 2023 [(a)]	$ 108,697,425	$ 83,666,532
U.S. dollar indebtedness from a private company with maximum indebtedness of $115,000,000 US dollars, bearing interest at Prime plus 3.25% per annum compounded and payable monthly and with maturity date of May 8, 2023[(b)]	75,361,974	77,236,378
U.S dollar indebtedness from a private company with a maximum indebtedness of $22,500,000 US dollars, bearing interest at LIBOR plus 400 basis points	-	12,322,549
U.S dollar indebtedness from a private company with maximum indebtedness of $83,000,000 US dollars, bearing interest (i) of fixed rate equal to 5.5% per annum through December 31, 2022 and (ii) interest rate that the greater of (A) A variable interest rate at Prime plus 50 basis points, and (B) 4.5% per annum from and after December 31, 2022 and with maturity date of January 11, 2026 [(c)]	9,216,975	-
U.S. dollar indebtedness from a bank with a loan amount of $19,786,193 US dollars, bearing floating interest rate equal to the greater of (i) the prime rate plus 0.50%, or (ii) 4.00% per annum and with maturity date of January 15, 2025 [(d)]	25,799,081	-
Total	$ 219,075,455	$ 173,225,459

13. Secured borrowing (continued):

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

In November 2021, the loan was renewed bearing interest of one month LIBOR with of a floor of 0.25%, plus 7.00% per annum maturing November 16, 2022 with extension option. In October 2022, Trez Capital (2018) Nominee LP has elected to extend the existing maturity date to November 16, 2023. As at December 31, 2022, the amount outstanding on the term loan is $108,697,425 (2021 - $83,666,532). The loan is guaranteed by the Trust and other entities related to the Trust by virtue of common control.

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

(*i*) Borrower shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the sum of (a) $15,000,000, plus (b) fifty percent (50%) of Borrower's net income as of the most recently ended trailing 12-month period, minus (c) the aggregate amount of payments made by Borrower to permanently reduce the Term Loans as of such date.

(*ii*) The Trust shall not permit its Net Worth, as tested on the Closing Date and the last Business Day of each calendar month thereafter, to be less than the greater of (*i*) $100,000,000; and (*ii*) and amount equal to all of the Trust's outstanding indebtedness (including, without limitation, all guaranties).

(*iii*) The Trust shall not permit the Debt to Equity ratio to exceed 2.00:1.00 as of the last day of any fiscal quarter.

The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2022.

(b) In 2019 a subsidiary of the Trust, Trez Camperdown LP, has entered into a senior secured term loan facility for available proceeds up to US$115,000,000, bearing interest at Prime plus 3.25%, with a floor of 8.75%, and maturing on the earlier of 3 years from the date of the note or the initial maturity of the underlying loan. The loan maturity has extended to May 8, 2023 pursuant to the 7th amendment. As at December 31, 2022, the amount outstanding on the term loan is $75,361,974 (2021 - $77,236,378). The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2022.

(c) During 2022, a subsidiary of the Trust, Trez Capital HBL, LP, has entered into a senior secured term loan facility for available proceeds up to US$83,000,000, bearing interest at (i) of fixed rate equal to 5.5% per annum through December 31, 2022 and (ii) interest rate that the greater of (a)A variable interest rate at Prime plus 50 basis points, and (b) 4.5% per annum from and after December 31, 2022. As at December 31, 2022, the amount outstanding on the term loan is $9,216,975. The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2022.

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

13. Secured borrowing (continued):

(d) During 2022, a subsidiary of the Trust, Trez Capital Yield Trust US Canadian Dollar Sub-Trust Equities LP, has entered into a loan agreement for US$19,786,193 bearing floating interest rate equal to the greater of (i) prime rate plus 0.50%, or (ii) 4.00% per annum and with maturity date of January 15, 2025. As at December 31, 2022, the amount outstanding on the term loan is $25,799,081. The trust was in compliance with all of the applicable covenants of the credit facility as at December 31, 2022.

14. Financial instruments and risk management:

(a) Fair values:

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

The carrying values of financial assets and financial liabilities not measured at fair values, such as cash and cash equivalents, other assets, due from related parties, promissory notes receivable, accounts payable and accrued liabilities, distributions payable on redeemable units, secured borrowing 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 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").

	Carrying value		
December 31, 2022	Amortized cost	FVTPL	Fair value
Assets not measured at fair value:			
Investments in mortgages	$ 628,603,452	$ -	$ 628,603,452
Due from related parties	7,658,395	-	7,658,395
Cash and cash equivalents	90,099,506	-	90,099,506
Promissory notes receivable	182,481	-	182,481
Other assets	8,440,203	-	8,440,203
Assets measured at fair value:			
Investments held at fair value (Level 3)	-	358,769,124	358,769,124
Investments in mortgages (Level 3)	-	123,249,621	123,249,621
Margin deposits (Level 2)	-	43,370,100	43,370,100

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

14. Financial instruments and risk management (continued):

(a) Fair values (continued):

	Carrying value		
December 31, 2022	Amortized cost	FVTPL	Fair value
Financial liabilities not measured at fair value:			
Secured borrowing	$ 219,075,455	$ -	$ 219,075,455
Mortgage syndication liabilities	98,479,141	-	98,479,141
Management and incentive fees payable	8,985,156	-	8,985,156
Distributions payable to holders of redeemable units	5,193,247	-	5,193,247
Due to related parties	382,558	-	382,558
Accounts payable and accrued liabilities	2,827,304	-	2,827,304
Loan Payable	5,644,230	-	5,644,230
Financial liabilities measured at fair value:			
Foreign currency derivatives (Level 2)	-	28,567,221	28,567,221

	Carrying value		
December 31, 2021	Amortized cost	FVTPL	Fair value
Assets not measured at fair value:			
Investments in mortgages	$ 676,419,687	$ -	$ 676,419,687
Due from related parties	4,286,193	-	4,286,193
Cash and cash equivalents	165,364,013		165,364,013
Promissory notes receivable	488,946	-	488,946
Other assets	15,833,746	-	15,833,746
Assets measured at fair value:			
Investments held at fair value (Level 3)	-	176,681,558	176,681,558
Investment in mortgages (Level 3)	-	42,889,380	42,889,380
Foreign currency derivatives and margin deposits (Level 2)	-	28,400,630	28,400,630

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

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

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

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

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

14. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

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

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

Typically, the fair value of these investments approximates their carrying value given the investments consist of short-term mortgages and the mortgages have variable interest rates. A 0.25% increase in the discount rate used in the discounted cash flow would decrease the fair value of the investments by approximately $4,052,134 (2021 - 0.25% increase - $230,967). A 0.25% decrease in the discount rate used in the discounted cash flow would increase the fair value of the investments by approximately $4,164,821 (2021 - 0.25% decrease - $1,004,381).

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

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

2022	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 123,249,621	$ 123,249,621
Investments held at fair value	-	-	358,769,124	358,769,124

2021	Level 1	Level 2	Level 3	Total
Investments in mortgages	$ -	$ -	$ 42,889,380	$ 42,889,380
Investments held at fair value	-	-	176,681,558	176,681,558

There were no transfers between levels during 2022 (2021 - nil).

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

14. Financial instruments and risk management (continued):

(a) Fair values (continued):

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

A reconciliation of Level 3 investments held at fair value at December 31, 2022 is as follows:

Investments held at fair value, December 31, 2020	$	79,733,080
Additions to investments		479,138,859
Distributions		(393,128,938)
Realized change in fair value		3,453,467
Unrealized change in fair value		7,996,557
Impact of foreign exchange translation		(511,467)
Investments held at fair value, December 31, 2021		176,681,558
Additions to investments		722,537,971
Distributions		(584,503,854)
Realized change in fair value		14,859,526
Unrealized change in fair value		15,145,392
Impact of foreign exchange translation		14,048,532
Investments held at fair value, December 31, 2022	$	358,769,124

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

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

(*iii*) Foreign currency derivatives:

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

(*iv*) Other financial assets and liabilities:

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

14. Financial instruments and risk management (continued):

(a) Fair values (continued):

(*v*) Net assets attributable to holders of redeemable units:

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

(b) Financial risk management:

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

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

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

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

(*i*) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation that it has entered into with the Trust, resulting in a financial loss to the Trust. This risk arises principally from the investments in mortgages, promissory notes, and other receivables. For risk management reporting purposes the Trust considers and consolidates all elements of credit risk exposure (such as loan-to-value, sector risk, location risk, and individual obligor default risk). The Trust manages its credit risk through extensive initial due diligence and careful monitoring of its mortgage portfolio, active communications with borrowers and the institution of aggressive enforcement procedures on defaulting mortgages by its Mortgage Broker, and by matching the cash flow profile of the assets and liabilities.

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

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

14. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*i*) Credit risk (continued):

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

(*ii*) Liquidity risk:

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

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

As at December 31, 2022, 58.27% of the Trust's mortgage portfolio, being $438,123,636, is due on or before December 31, 2023 (2021 - 52.42% or $369,540,562 due before December 31, 2022).

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

The following table shows the contractual timing of cashflows.

December 31, 2022	Carrying value	Contractual cash flow	Within a year	Following year	3 - 5 years	5+
Accounts payable and accrued expenses	$ 2,827,304	$ 2,827,304	$ 2,827,304	$ -	$ -	$ -
Due to related parties	382,558	382,558	382,558	-	-	-
Distribution payable	5,193,246	5,193,246	5,193,246	-	-	-
Due to Manager	8,985,156	8,985,156	8,985,156	-	-	-
Secured borrowing	219,075,456	239,234,928	200,565,514	2,801,285	35,868,129	-
Loans payable	5,644,230	7,733,023	1,647,006	1,987,787	4,098,230	-
Total	242,107,950	264,356,215	219,600,784	4,789,072	39,966,359	-
Total contractual liabilities, excluding mortgage syndication liabilities	$ 242,107,950	$264,356,215	$219,600,784	$ 4,789,072	$ 39,966,359	$ -

1. Secured borrowing includes interest based on Jan 1st, 2023 prime rate or libor rate plus agreed add-on rates assuming that outstanding balances are not repaid until agreed maturity dates.
2. Loan Payable includes interests based on annual interest rate of 14.49% assuming that outstanding balances are not repaid unitl loan maturity dates.

14. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(ii) Liquidity risk (continued):

As at Dec 31, 2022, the Trust had a cash position of $90,099,506 (December 31, 2021- $165,364,013). Management believes the Trust will be able to finance its operations using the cash flow generated from operations, investing activities and credit facilities.

(iii) Market risk:

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

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

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

(A) Interest rate risk:

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

The Trust's interest rate risk is primarily attributable to its return on investments in mortgages relative to its resources to fund the mortgages. As described in Note 8, units are redeemable by the unit holders upon 30-days' notice. A significant rise in interest rates may cause unit holders to redeem their Units and could cause a shortfall in funds available to meet such redemptions. The Trust charges a 1% prepayment penalty on redemptions made prior to the first anniversary from the units' issuance.

As at December 31, 2022, a 0.25% increase/decrease in the interest rates with all other variables held constant would increase/decrease the Trust's income by approximately $1,547,207 (2021 - $1,416,219) arising from income generated on the Trust's cash deposits and higher interest income generated on variable rate mortgage investments after deducting increased or decreased interest expenses from secured borrowing and other loan payables.

(B) Currency risk:

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

The Trust has put in place steps to mitigate the impacts from fluctuations in foreign exchange on the Trust's obligation to redeem Canadian series units in Canadian dollars as explained in Note 11. As at December 31, 2022, the Trust was participating in forward exchange contracts to sell U.S. dollars totaling $718,267,875 (2021 - $666,688,416).

14. Financial instruments and risk management (continued):

(b) Financial risk management (continued):

(*iii*) Market risk (continued):

(B) Currency risk (continued):

The foreign currency derivatives are marked-to-market on the Consolidated Statement of Financial Position and the fair value as at December 31, 2022 is liability of $28,567,221 (2021 - asset $ 446,829). 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 overhedged exposure at December 31, 2022 and 2021. It also illustrates the potential impact on the net assets attributable to holders of redeemable units if US dollar had strengthened or weakened by 5% in relation to the other currency, with all other variables held constant.

Increase (decrease) in Canadian dollars:

		2022
Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars Exposure in C$	$ (4,266,323)	$ (21,332)
% of net assets attributable to redeemable units	0.43%	0.00%

		2021
Currency	Exposure	Impact on net assets attributable to redeemable units
United States dollars Exposure in C$	$ (1,175,249)	$ (5,876)
% of net assets attributable to redeemable units	0.13%	0.00%

(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 or national in nature. Deteriorating real estate values increase the Trust’s risk. The Trust manages these risks by actively maintaining strong borrower relationship and active monitoring of all loans. Further, the Trust has diversified its portfolio of investment mortgages geographically to manage this risk.

15. Capital management:

The Trust considers net assets attributable to holders of redeemable units to be capital, which at December 31, 2022 was $988,956,221 (2021 - $913,562,338).

The Trust's objective when managing capital is to maintain its ability to continue as a going concern and ensure that it has sufficient cash resources to invest in mortgages in order to provide a return to its Unitholders. The Trust manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Trust may issue new units. The Trust is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Trust document.

16. Commitments and contingencies:

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

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