

Consolidated Financial Statements  
(Expressed in Canadian dollars)

**REALnorth Opportunities Fund**

For the years ended December 31, 2016 and 2015



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## INDEPENDENT AUDITORS' REPORT

To the Trustees of REALnorth Opportunities Fund

We have audited the accompanying consolidated financial statements of REALnorth Opportunities Fund, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of unitholders' equity, income (loss) and comprehensive income (loss), and cash flow for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of REALnorth Opportunities Fund as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*KPMG LLP*

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Chartered Professional Accountants

April 20, 2017

Vancouver, Canada

**REALnorth Opportunities Fund**

Consolidated Statement of Financial Position

Expressed in Canadian Dollars

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investment property (note 4)	\$ 6,520,000	\$ 6,450,000
Equity-accounted investments (note 5)	9,612,389	9,877,289
	<b>16,132,389</b>	<b>16,327,289</b>
<b>Current assets</b>		
Prepaid expenses	19,403	26,101
Amounts receivable	685	1,560
Due from related parties (note 13)	921,797	542,485
Cash	843,353	1,844,270
	<b>1,785,238</b>	<b>2,414,416</b>
<b>TOTAL ASSETS</b>	<b>\$ 17,917,627</b>	<b>\$ 18,741,705</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Mortgage payable (note 6)	\$ 4,234,997	\$ 4,344,231
<b>Current liabilities</b>		
Mortgage payable – current portion (note 6)	125,168	120,529
Distributions payable (note 8)	345,314	230,047
Accounts payable and accrued liabilities	119,959	258,301
	<b>590,441</b>	<b>608,877</b>
<b>TOTAL LIABILITIES</b>	<b>4,825,438</b>	<b>4,953,108</b>
<b>UNITHOLDERS' EQUITY</b>		
Non-controlling interest (note 7)	1,549,532	1,624,977
Unitholders' equity (note 8)	11,542,657	12,163,620
<b>TOTAL LIABILITIES AND UNITHOLDERS' EQUITY</b>	<b>\$ 17,917,627</b>	<b>\$ 18,741,705</b>

See accompanying notes to consolidated financial statements.

Approved on behalf of REALnorth Opportunities Fund by its Trustees:

“Antony Kalla” Trustee  
Antony Kalla

“Stephen J. Evans” Trustee  
Stephen J. Evans

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

**REALnorth Opportunities Fund**

Consolidated Statement of Unitholders' Equity

Expressed in Canadian Dollars

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		Trust units	Non-controlling	
	Units	Amount	interest	Total
			Amount	Amount
Unitholders' equity, December 31, 2015	12,900	\$ 12,163,620	\$ 1,624,977	\$ 13,788,597
Unit redemptions	(100)	(95,950)	–	(95,950)
Loss for the year	–	(225,107)	(30,037)	(255,144)
Distributions	–	(299,906)	(45,408)	(345,314)
<b>Unitholders' equity, December 31, 2016</b>	<b>12,800</b>	<b>\$ 11,542,657</b>	<b>\$ 1,549,532</b>	<b>\$ 13,092,189</b>

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		Trust units	Non-controlling	
	Units	Amount	interest	Total
			Amount	Amount
Unitholders' equity, December 31, 2014	10,623	\$ 9,758,571	\$ 1,574,447	\$ 11,333,018
Contributions	2,277	2,277,000	230,104	2,507,104
Offering costs	–	(182,160)	(230,114)	(412,274)
Net income for the year	–	510,209	80,587	590,796
Distributions	–	(200,000)	(30,047)	(230,047)
<b>Unitholders' equity, December 31, 2015</b>	<b>12,900</b>	<b>\$ 12,163,620</b>	<b>\$ 1,624,977</b>	<b>\$ 13,788,597</b>

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

**REALnorth Opportunities Fund**

Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

Expressed in Canadian Dollars

Year ended December 31	2016	2015
<b>NET RENTAL INCOME (EXPENSES)</b>		
Rental revenue and recoveries	\$ 685,005	\$ 674,998
Insurance	(10,734)	(10,731)
Property management fees (note 13)	(9,073)	(8,901)
Property taxes	(195,240)	(185,880)
	<b>469,958</b>	469,486
<b>NET FINANCE INCOME (EXPENSES)</b>		
Interest income	85,970	175,435
Mortgage interest	(181,934)	(186,167)
	<b>(95,964)</b>	(10,732)
<b>NET OTHER INCOME (EXPENSES)</b>		
General and administrative	(239,185)	(265,843)
Asset management fees (note 13)	(135,450)	(131,728)
Increase in fair value of investment property (note 4)	54,146	225,571
	<b>(320,489)</b>	(172,000)
<b>SHARE OF INCOME (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS (note 5)</b>	<b>(308,649)</b>	304,042
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	<b>(255,144)</b>	590,796
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>		
Unitholders	(225,107)	510,209
Non-controlling interest	(30,037)	80,587
	<b>\$ (255,144)</b>	<b>\$ 590,796</b>
<b>Earnings (loss) per unit</b>		
Basic and diluted	\$ (17.57)	\$ 40.23
<b>Weighted average number of units</b>		
Basic and diluted	<b>12,814</b>	12,682

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

## REALnorth Opportunities Fund

Consolidated Statement of Cash Flow

Expressed in Canadian Dollars

Year Ended December 31	2016	2015
<b>Cash provided by (used in)</b>		
<b>OPERATIONS</b>		
Net income (loss) for the year	\$ (255,144)	\$ 590,796
Items not involving cash:		
Amortization of mortgage transaction costs	15,934	15,542
Increase in fair value of investment property	(54,146)	(225,571)
Straight-line rent adjustment	(15,854)	(24,429)
Share of loss (income) of equity-accounted investments	308,649	(304,042)
Interest income	(85,970)	(175,435)
Mortgage interest	166,000	170,625
Changes in non-cash working capital items:		
Decrease (increase) in prepaid expenses	6,698	(18,722)
Decrease (increase) in amounts receivable	64	(579)
Increase in due from related parties	(379,312)	(268,773)
Decrease in accounts payable and accrued liabilities	(141,824)	(364,261)
	(434,905)	(604,849)
<b>INVESTING</b>		
Contributions to equity-accounted investments	(43,750)	–
Interest received	86,782	174,703
Acquisition of equity-accounted investments	–	(9,573,247)
	43,032	(9,398,544)
<b>FINANCING</b>		
Distributions to Trust unitholders	(200,000)	–
Distributions to non-controlling interest	(30,047)	–
Mortgage interest paid	(166,356)	(170,708)
Proceeds from issuance of units	–	2,277,000
Repayment of mortgage	(120,529)	(116,177)
Unit redemptions	(92,112)	–
Unit issuance costs	–	(412,274)
Contributions from non-controlling interest	–	230,104
	(609,044)	1,807,945
<b>Change in cash during the year</b>	<b>(1,000,917)</b>	<b>(8,195,448)</b>
<b>Cash, beginning of year</b>	<b>1,844,270</b>	<b>10,039,718</b>
<b>CASH, END OF YEAR</b>	<b>\$ 843,353</b>	<b>\$ 1,844,270</b>

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

## 1. TRUST INFORMATION

REALnorth Opportunities Fund (the “Trust”) is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated August 27, 2014 under and governed by the laws of the Province of British Columbia and resident in Canada. The Trust’s head office is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The principal business of the Trust is to invest the proceeds from the issuance of Trust units in the acquisition of REALnorth Opportunities Master Limited Partnership (the “Master LP”) units.

The Master LP is a limited partnership formed pursuant to and governed by the laws of British Columbia and created by the Master LP agreement on July 31, 2014. The Master LP’s head office is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The general partner of the Master LP is REALnorth Opportunities Inc. (the “Master GP”), a corporation incorporated under the *Canada Business Corporations Act* on February 25, 2014, having its office at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The principal business of the Master LP is to invest the proceeds from the issuance of Master LP units in:

- REALnorth Opportunities (Investments) Limited Partnership (the “Investments LP”) units. REALnorth Opportunities (Investments) GP Ltd. (the “Investments GP”) was incorporated under the *Business Corporations Act* (British Columbia) on June 19, 2014 and is engaged in identifying investment opportunities in revenue-producing real estate located in northwestern Canada. In order to take advantage of such investment opportunities, the Investments GP established the Investments LP on August 28, 2014 pursuant to the laws of British Columbia for the purposes of owning and operating a diversified portfolio of high quality, revenue-producing properties in northwestern Canada (or proportionate interests in such properties). The principal business of the Investments LP is to issue Investments LP units, to invest the proceeds from such issuance in the properties, and to own and operate such properties.
- REALnorth Opportunities (Developments) Limited Partnership (the “Developments LP”) units. REALnorth Opportunities (Developments) GP Ltd. (the “Developments GP”) was incorporated under the *Business Corporations Act* (British Columbia) on August 29, 2014 and is engaged in identifying investment opportunities in developing real estate located in northwestern Canada. In order to take advantage of such investment opportunities, the Developments GP established the Developments LP on August 29, 2014 pursuant to the laws of British Columbia for the purposes of developing high quality real estate in northwestern Canada (or proportionate interests in such properties). The principal business of the Developments LP is to issue Developments LP units, to invest the proceeds from such issuance in the properties, and to develop such properties.

The allocation of the net proceeds received by the Master LP from the issuance of Master LP units between Investments LP units and Developments LP units is determined by the Master GP from time to time based upon the individual economic fundamentals of the prospective investment opportunities.

## 2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

### A. *Statement of compliance*

These consolidated financial statements have been prepared under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) incorporating interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and effective for the year ended December 31, 2016.

These consolidated financial statements for the year ended December 31, 2016 were authorized for issuance by the Board of Trustees (the “Board”) on April 12, 2017.



**2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)**

***B. Basis of measurement***

These consolidated financial statements have been prepared on a historical cost basis, except for investment property which has been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Trust's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(O).

***C. Functional and presentation currency***

These consolidated financial statements are presented in Canadian dollars, which is the Trust's functional currency.

***D. Presentation of financial statements***

The Trust uses a classified statement of financial position. The consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months of the reporting date and non-current assets and liabilities are those where recovery or settlement is expected to occur more than twelve months from the reporting date. The Trust classifies the consolidated statements of income (loss) and comprehensive income (loss) using the function of expense method, which classifies expenses according to their functions, such as costs of operations or administrative activities.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

***A. Basis of consolidation***

The consolidated financial statements comprise the financial statements of the Trust and its subsidiaries, over which the Trust has control. Control exists when the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The non-controlling interest is included in unitholders' equity. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

As at December 31, 2016, the initial limited partners of the Master LP, the general partner of the Master LP, the general partner of the Investments LP and the general partner of the Developments LP collectively represented the non-controlling interest of the Trust.

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

The Trust has subscribed to units in limited partnerships where it does not have control over the entity, as set out in note 3(O). The Trust accounts for its interests in entities over which it has significant influence using the equity method. Balances due from equity-accounted investments and the associated interest income are not eliminated in preparing the consolidated financial statements. The interest expense incurred by equity-accounted investments on loans from the Trust or its subsidiaries is expensed as incurred.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***B. Property acquisitions and business combinations***

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. The basis of the judgment is set out in note 3(O).

Where such acquisitions are not determined to be business combinations, they are treated as asset acquisitions. The cost to acquire the property is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as business combinations.

***C. Investment properties***

Investment properties comprise property held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value with any changes therein recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the year in which they arise. The Trust defines fair value to be the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after the acquisition date, would be the new basis for the fair value recorded on the investment property.

The Trust includes straight-line rental revenue differences in the fair value of investment properties instead of recognizing them as a separate asset.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

- The income approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or discounted cash flow analysis.
- The direct comparison approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value. The significant assumptions used by management in estimating the fair value of investment property are set out in note 4.

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the year of retirement or disposal.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***D. Leases***

The Trust is the lessor in all leasing arrangements. The Trust classifies its leases according to whether the leases transfer substantially all the risks and benefits of ownership in the investment property. The Trust's current lease is classified as an operating lease.

***E. Property inventories***

Property inventories comprise properties held for sale in the ordinary course of business, property under development for sale or materials and supplies to be consumed in the development process. Property inventories are measured at the lower of cost and net realizable value, with cost assigned to properties by specific identification. Where properties are further subdivided and sold, cost is assigned to subdivided lots using the net yield method. The net yield method allocates common costs to each lot in proportion to the anticipated revenue.

Property inventories are written down to net realizable value when the cost of property inventories is determined not to be recoverable. Write-downs are reversed when circumstances that previously caused property inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances.

As the Trust does not have property inventories recorded within its consolidated financial statements, this accounting policy applies to the associates the Trust has an interest in, which are accounted for under the equity method.

***F. Cash***

Cash consists of cash on hand and cash held at banks.

***G. Revenue recognition***

Rental revenue is recognized in income on a straight-line basis over the lease term subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

Sales revenue related to the sale of development properties is recognized when possession or title passes to the purchaser, all material conditions of the sales contract have been met, the risks and rewards of ownership have been transferred and collection of the sale proceeds is reasonably assured. As the Trust does not have development properties recorded within its consolidated financial statements, this accounting policy applies to the associates the Trust has an interest in, which are accounted for under the equity method.

***H. Finance income (expense)***

Finance income consists of interest earned on deposit from bank accounts, which is recognized in the period in which it is earned.

Finance expense consists of mortgage interest, which is recognized in the period in which it is incurred.

***I. Financial instruments***

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value. Their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Trust's designation of such instruments.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***I. Financial instruments (continued)***

The Trust classifies its financial instruments as follows:

Cash	Loans and receivables
Amounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Distributions payable	Other financial liabilities
Mortgage payable	Other financial liabilities

Loans and receivables include cash, amounts receivable and due from related parties. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities include accounts payable and accrued liabilities, distributions payable and the mortgage payable. These liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost, using the effective interest rate method.

***J. Impairment of financial assets***

At each reporting date, the Trust assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense on the consolidated statement of income (loss) and comprehensive income (loss).

***K. Fair value***

The Trust measures investment properties at fair value at the end of each reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or using a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***L. Income taxes***

The Trust qualifies as a “mutual fund trust” for Canadian income tax purposes under Part I of the *Income Tax Act (Canada)* (the “Tax Act”). The Master LP, together with all other partnerships that the Trust has an indirect interest in, are subsidiary partnerships of the Trust (the “Subsidiary Partnerships”). The Subsidiary Partnerships are not subject to tax under Part I of the Tax Act. Each partner of the Subsidiary Partnerships is required to include in computing the partner’s income for a particular taxation year the partner’s share of the income or loss of such Subsidiary Partnerships for their fiscal years ending in or on the partner’s taxation year-end, whether or not any income or loss is distributed to the partner in the taxation year. The Trust, as a partner of the Master LP, intends to distribute all of its taxable income to unitholders and to deduct such distributions for income tax purposes. Canadian income tax obligations relating to distributions of the Trust are the obligations of the unitholders. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships in a manner similar to corporations which tax certain distributions from such trusts and partnerships as taxable dividends from a taxable Canadian corporation (the “SIFT Rules”). The SIFT Rules apply to any trust or partnership that is a “SIFT trust” or “SIFT partnership” (each defined in the Tax Act) and its investors.

One of the conditions for a trust or partnership to be a SIFT trust or a SIFT partnership is that “investments” (as defined in the Tax Act) in the trust or partnership must be listed or traded on a stock exchange or other “public market” (as defined in the Tax Act). The Trust and the Subsidiary Partnerships have no current plans for their units or other “investments” thereof to be listed or traded on a stock exchange or other “public market”. In addition, management represents that the issuance and transfer of units of the Trust or the Subsidiary Partnerships will only be made in a manner that would not cause such entities to be subject to SIFT tax. As a result, the Trust does not account for current or deferred income taxes.

***M. Net earnings (loss) per unit***

Basic and diluted net earnings (loss) per unit is calculated by dividing net income (loss) attributable to the unitholders by the weighted average number of units (basic and diluted) outstanding during the reporting period.

***N. Operating segments***

The Trust currently operates in two business segments, being the owning and operating of investment properties and the development of properties in northwestern Canada. The Trust, through the Master LP and the Investments LP, currently owns and operates one investment property in northern British Columbia, Canada. The Trust, through the Master LP and the Developments LP, also has an interest in one additional investment property and two development properties in northern British Columbia, Canada (note 5). The primary format for segment reporting is based on property type and is consistent with the internal reporting provided to the chief operating decision-maker, determined to be the Acting Chief Executive Officer.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*O. Significant accounting judgments and estimates*

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

*a. Judgments*

In the process of applying the Trust's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements.

*(i) Asset acquisitions*

The Trust acquires individual real estate properties. At the time of acquisition, the Trust considers whether or not the acquisition represents the acquisition of a business. The Trust accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

All property acquisitions to date by the Trust and the Trust's equity-accounted investments have been determined to be asset acquisitions.

*(ii) Lease contracts*

The Trust has entered into a property lease at its investment property. The Trust makes judgments in determining whether certain leases, particularly those leases with long contractual terms, are operating or finance leases. The Trust must assess each lease separately against land and building. The Trust has determined that its lease of the land and building of its investment property is an operating lease.

*(iii) Control over equity-accounted investments*

In May 2015, the Trust, through the Master LP and the Developments LP, acquired an 88.9% interest in Western Canadian Property Group VII Limited Partnership ("WCPG VII LP"). Although the Trust holds 88.9% of the voting rights of WCPG VII LP, the general partner of WCPG VII LP has full power and authority to administer, manage, control and operate the business of WCPG VII LP and cannot be removed except in the event of a default in the course of its conduct as the general partner. The general partner of the Master LP has an indirect 50% ownership and voting interest in the general partner of WCPG VII LP and has the right to nominate one of the two directors of the general partner of WCPG VII LP. Therefore, the Trust has judged that it has significant influence rather than control over WCPG VII LP.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***O. Significant accounting judgments and estimates (continued)***

***a. Judgments (continued)***

***(iii) Control over equity-accounted investments (continued)***

In September 2015, the Trust, through the Master LP and Developments LP, acquired an 87.5% interest in FSJ Industrial Properties Limited Partnership (“FSJ Industrial”). Although the Trust holds 87.5% of the voting rights of FSJ Industrial, the general partner of FSJ Industrial has full power and authority to administer, manage, control and operate the business of FSJ Industrial and cannot be removed except in the event of a default in the course of its conduct as the general partner. The general partner of the Master LP has an indirect 50% ownership and voting interest in the general partner of FSJ Industrial and has the right to nominate one of the two directors of the general partner of FSJ Industrial. Therefore, the Trust has judged that it has significant influence rather than control over FSJ Industrial.

In October 2015, the Trust, through the Master LP and the Developments LP, acquired a 50% interest in FSJ Aurora Developments Limited Partnership (“FSJ Aurora LP”). The Trust holds 50% of the voting rights of FSJ Aurora LP. Although the remaining 50% of FSJ Aurora LP is indirectly owned by officers and trustees or directors of the Trust and the Master GP, the Trust has judged that it has significant influence over FSJ Aurora LP rather than control, on the basis that such persons are free to vote their own holdings in FSJ Aurora LP as suits their personal interests rather than being required to vote the same way as the Trust.

***b. Estimates***

Significant areas of estimation include the following:

***(i) Valuation of investment properties***

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

***(ii) Cost of sales***

Certain of the Trust’s equity-accounted investments hold property under development for sale (note 5). Cost of sales is determined by management using the net yield method, which requires the use of estimates including, costs to complete a project and selling prices of subdivided lots within a project. Management engages a cost consultant to review budgeted costs to complete and estimates selling prices based on market conditions existing at the reporting date.

***P. Future accounting policy changes***

***a. IFRS 9 Financial Instruments***

On July 24, 2014, the IASB issued the complete IFRS 9 Financial Instruments (“IFRS 9”).

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The standard must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***P. Future accounting policy changes (continued)***

***a. IFRS 9 Financial Instruments (continued)***

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

The Trust intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined; however, it is not expected to have a material impact on the Trust’s consolidated financial statements.

***b. IFRS 15 Revenue from Contracts with Customers***

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (“IFRS 15”). The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Trust intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. The Trust does not expect the standard to have a material impact on its consolidated financial statements.

***c. IFRS 16 Leases***

On January 13, 2016, the IASB issued IFRS 16 Leases (“IFRS 16”). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases (“IAS 17”).

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.



**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*P. Future accounting policy changes (continued)*

*c. IFRS 16 Leases (continued)*

The Trust intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined; however, it is not expected to have a material impact on the Trust's consolidated financial statements.

**4. INVESTMENT PROPERTY**

On September 12, 2014, the Master LP, through the Investments LP, completed the acquisition of 3851 22<sup>nd</sup> Avenue, Prince George, British Columbia ("22<sup>nd</sup> Avenue"), for a purchase price of \$6,200,000 plus standard closing costs and adjustments. 22<sup>nd</sup> Avenue is a 39,494 square foot industrial facility with a site area of approximately 10.1 acres.

The balance of the investment property as at December 31, 2016 and December 31, 2015 has been determined as follows:

	2016	2015
Balance, January 1	\$ 6,450,000	\$ 6,200,000
Straight-line rent adjustment	15,854	24,429
Increase in fair value of investment property	54,146	225,571
Balance, December 31	\$ 6,520,000	\$ 6,450,000

The fair value of the investment property has been determined based on market value. As set out in note 3(C), in arriving at its estimates of market value, management has used its market knowledge and professional judgment and did not rely solely on historical transactional comparisons.

For the years ended December 31, 2016 and December 31, 2015, appraisals were obtained from an accredited independent appraiser with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management reviewed the appraisals as part of the year end valuation process and ensured that the assumptions used below were reasonable and the final fair value amount reflects those assumptions used in the determination of the fair market value of the property.

The Trust does not expect to obtain appraisals at each reporting date. Where the Trust does not obtain an appraisal for a specific investment property at the reporting date, management uses specific indicators (i.e. market conditions, discount rate changes, etc.) and determines whether a change in fair value has occurred.

Investment property as at December 31, 2016 and December 31, 2015 has been valued using the overall capitalization rate ("OCR") method, an income based approach, whereby the stabilized net operating income is capitalized at the requisite OCR.

Since significant estimates are made for key inputs, including the capitalization rate and stabilized net operating income, the Trust measures the fair value of investment property under level 3 of the fair value hierarchy as described in note 3(K).

	December 31, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investment property	\$ -	\$ -	\$6,520,000	\$ -	\$ -	\$6,450,000

**4. INVESTMENT PROPERTY (continued)**

Significant assumptions made relating to the valuation of the investment property are set out below:

	December 31, 2016	December 31, 2015
Weighted average capitalization rate	6.75%	6.75%

Valuations determined using the direct capitalization income method are sensitive to changes in capitalization rates. The table below summarizes the sensitivity of the fair value of investment property to changes in the capitalization rate as at December 31, 2016.

Change in capitalization rate	Fair value	Change in fair value	Percentage change
- 0.75%	\$ 7,335,000	\$ 815,000	12.50%
- 0.50%	7,040,000	520,000	7.98%
- 0.25%	6,770,000	250,000	3.83%
December 31, 2016	6,520,000	-	-
+ 0.25%	6,290,000	(230,000)	(3.53%)
+ 0.50%	6,070,000	(450,000)	(6.90%)
+ 0.75%	5,870,000	(650,000)	(9.97%)

**5. EQUITY-ACCOUNTED INVESTMENTS**

As of December 31, 2016 and December 31, 2015, the Trust has three equity-accounted investments, as follows:

**A. Western Canadian Properties Group VII Limited Partnership**

On May 7, 2015, the Trust, through the Developments LP, subscribed for 262,500 units of WCPG VII LP at \$1 per unit for a total of \$262,500, which resulted in the Trust, through the Developments LP, owning 88.9% of WCPG VII LP. On May 27, 2015, the Trust, through the Developments LP, subscribed for a further 3,737,500 units of WCPG VII LP at \$1 per unit for a total of \$3,737,500 and maintained its ownership interest at 88.9% of WCPG VII LP.

The principal place of business for WCPG VII LP is #205, 930 Harbourside Drive, North Vancouver, British Columbia V7N 4C3.

Distributable cash will be distributed by WCPG VII LP as follows:

- a) First, to the limited partners, pro rata in accordance with their respective proportionate shares, until each limited partner has received a return in full of its net equity;
- b) Second, to the extent of the next \$5,000,000 of distributable cash:
  - (i) First, to the limited partners, pro rata in accordance with their respective proportionate shares, until each has received an amount which, when aggregated with all previous distributions, is equal to, but not in excess of, the sum of such limited partners' hurdle return of 10% per annum on a non-compounded basis from their respective dates of closing;
  - (ii) Second, to the general partner in an amount equal to 30/70ths of the amount paid to the limited partners on account of the hurdle return;
- c) Third, to the extent of the next \$2,500,000 of distributable cash, 100% to the general partner; and,
- d) As to the balance, 35% to the limited partners, pro rata in accordance with their respective proportionate shares, and 65% to the general partner.

**5. EQUITY-ACCOUNTED INVESTMENTS (continued)**

**A. Western Canadian Properties Group VII Limited Partnership (continued)**

Net income of WCPG VII LP is allocated among the partners in the same proportion and priority as distributions, without regard to the return of net equity. Net loss of WCPG VII LP is allocated first to the limited partners, pro rata in accordance with their respective proportionate share, to the extent of their at-risk amount as computed in accordance with the Tax Act, and second, as to the remainder, if any, to the general partner.

On May 29, 2015, WCPG VII LP acquired approximately 29 acres of residential property (“Garrison Landing”) in Fort St. John, British Columbia, for a purchase price of \$6,200,000 plus standard closing costs and adjustments. Garrison Landing is expected to be developed in five phases, and to generate, in aggregate, approximately 153 single family lots which will be offered for sale after servicing is complete. As at December 31, 2016, two phases comprising 55 subdivision lots were substantially complete and 18 of those lots had been sold.

**B. FSJ Industrial Properties Limited Partnership**

On September 3, 2015, the Trust, through the Developments LP, subscribed for 10 Class B units of FSJ Industrial at \$1 per unit for a total of \$10. On September 9, 2015, the Trust, through the Developments LP, subscribed for a further 3,076,362 Class B units for a total of \$3,076,362, which resulted in the Trust, through the Developments LP, owning 87.5% of FSJ Industrial. On September 24, 2015, the Trust, through the Developments LP, subscribed for a further 65,625 Class B units for a total of \$65,625 and maintained its ownership interest at 87.5% of FSJ Industrial. On December 21, 2015, the Trust, through the Developments LP, subscribed for an additional 131,250 Class B units for a total of \$131,250 and maintained its ownership interest at 87.5% of FSJ Industrial.

The principal place of business for FSJ Industrial is 1050 – 475 West Georgia Street, Vancouver, British Columbia V6B 4M9.

Distributable cash will be distributed by FSJ Industrial as follows:

- a) First, to the limited partners, pro rata in accordance with their respective net equity, until each limited partner has received a return in full of its net equity;
- b) Second, 0.01% of the balance of distributable cash will be distributed to the general partner, to a maximum of \$100 per annum;
- c) As to the balance of distributable cash:
  - (i) 50% thereof will be distributed to the limited partners holding Class A units, pro rata in accordance with their respective proportionate shares; and
  - (ii) 50% thereof will be distributed to the limited partners holding Class B units, pro rata in accordance with their respective proportionate shares.

Net income of FSJ Industrial is allocated among the partners in the same proportion and priority as distributable cash, without regard to the return of net equity. Net loss of FSJ Industrial is allocated first to the limited partners, pro rata in accordance with their respective proportionate share, to the extent of their at-risk amount as computed in accordance with the Tax Act, and second, as to the remainder, if any, to the general partner.

On September 10, 2015, FSJ Industrial acquired approximately 17 acres of industrial property (the “BCR Lands”) in Fort St. John, British Columbia, for a purchase price of \$3,446,000 plus standard closing costs and adjustments. The BCR Lands comprise four lots which are accessible by rail and which may be sold in their current condition or further developed with either build-to-suit options or lay-down yards for industrial users depending upon market demands.

**5. EQUITY-ACCOUNTED INVESTMENTS (continued)**

**C. FSJ Aurora Developments Limited Partnership**

On October 20, 2015, the Trust, through the Developments LP, subscribed for 2,300,000 limited partnership units of FSJ Aurora LP at \$1 per unit for a total of \$2,300,000, thereby acquiring a 50% interest in FSJ Aurora LP. On October 23, 2015, FSJ Aurora LP completed the acquisition of approximately 144 acres of bare land (the “Aurora Lands”) for a purchase price of \$4,500,000 plus standard closing costs and adjustments. The Aurora Lands were located immediately outside of the current northeast boundary of the City of Fort St. John. During the year ended December 31, 2016, the City of Fort St. John expanded its boundary, with the result that the Aurora Lands are now included within city boundaries. The Aurora Lands are currently in the Agricultural Land Reserve.

Under IAS 28, *Investments in Associates and Joint Ventures*, the Trust accounts for its interests in entities over which it has significant influence using the equity method. The Trust has determined that it has significant influence over WCPG VII LP, FSJ Industrial and FSJ Aurora LP, as set out in note 3(0).

The carrying value of the Trust’s equity-accounted investments as at December 31, 2016 and December 31, 2015 has been determined as follows:

	WCPG VII LP	FSJ Industrial	FSJ Aurora LP	Total
Initial investment	\$ 262,500	\$ 10	\$ 2,300,000	\$ 2,562,510
Subsequent investment	3,737,500	3,273,237	–	7,010,737
Share of net income (loss)	342,998	(35,661)	(3,296)	304,041
Balance, December 31, 2015	\$ 4,342,998	\$ 3,237,586	\$ 2,296,704	\$ 9,877,288
Contributions	–	43,750	–	43,750
Share of loss	(241,205)	(48,874)	(18,570)	(308,649)
Balance, December 31, 2016	\$ 4,101,793	\$ 3,232,462	\$ 2,278,134	\$ 9,612,389

The summarized financial position of the Trust’s equity-accounted investments for the year ended December 31, 2016 was as follows:

	WCPG VII LP	FSJ Industrial	FSJ Aurora LP	Total
Current assets	\$ 9,093,225	\$ 3,698,750	\$ 13,106	\$ 12,805,081
Non-current assets	–	–	4,600,000	4,600,000
Current liabilities	(4,313,198)	(4,407)	(56,828)	(4,374,433)
Net assets at 100%	4,780,027	3,694,343	4,556,278	13,030,648
Trust’s ownership interest	88.9%	87.5%	50%	
Trust’s share of net assets	\$ 4,248,913	\$ 3,232,550	\$ 2,278,139	\$ 9,759,602

**REALnorth Opportunities Fund**  
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**5. EQUITY-ACCOUNTED INVESTMENTS (continued)**

The summarized financial position of the Trust's equity-accounted investments as at December 31, 2015 was as follows:

	WCPG VII LP	FSJ Industrial	FSJ Aurora LP	Total
Current assets	\$ 9,983,214	\$ 3,721,170	\$ 2,374	\$ 13,706,758
Non-current assets	–	–	4,626,944	4,626,944
Current liabilities	(4,931,831)	(20,971)	(35,900)	(4,988,702)
Net assets at 100%	5,051,383	3,700,199	4,593,418	13,345,000
Trust's ownership interest	88.9%	87.5%	50%	
Trust's share of net assets	\$ 4,490,119	\$ 3,237,674	\$ 2,296,709	\$ 10,024,502

The summarized results of operation of the Trust's equity-accounted investments for the year ended December 31, 2016 are as follows:

	WCPG VII LP	FSJ Industrial	FSJ Aurora LP	Total
Rental & sales income (expenses)	\$ 56,263	\$ (50,943)	\$ (1,922)	\$ 3,398
Finance income (expenses)	(350,530)	–	–	(350,530)
Other income (expenses)	22,911	(4,913)	(35,217)	(17,219)
Net loss at 100%	(271,356)	(55,856)	(37,139)	(364,351)
Trust's share of loss	\$ (241,205)	\$ (48,874)	(18,570)	\$ (308,649)

The summarized results of operation of the Trust's equity-accounted investments for the year ended December 31, 2015 are as follows:

	WCPG VII LP	FSJ Industrial	FSJ Aurora LP	Total
Rental & sales income (expenses)	\$ 796,225	\$ (21,114)	\$ (6,659)	\$ 768,452
Finance income (expenses)	(147,434)	–	67	(147,367)
Other income (expenses)	(97,508)	(19,641)	–	(117,149)
Net income (loss) at 100%	551,283	(40,755)	(6,592)	503,936
Trust's share of net income (loss)	\$ 342,998	\$ (35,660)	(3,296)	\$ 304,042

**6. MORTGAGE PAYABLE**

On September 12, 2014, the Master LP, through the Investments LP, financed the acquisition of 22<sup>nd</sup> Avenue with cash and a term loan in the amount of \$4,650,000 bearing interest at 3.72% and maturing in 2019. The term loan is secured by a mortgage on the property.

The mortgage payable is recorded at amortized cost and bears an effective interest rate of 3.76% as at December 31, 2016 (December 31, 2015 – 3.77%).

The carrying value of the mortgage payable on December 31, 2016 was \$4,360,165 (December 31, 2015 – \$4,464,760). Included in the mortgage payable were the related unamortized mortgage transaction costs of \$45,124 as at December 31, 2016 (December 31, 2015 – \$61,058), which are amortized over the term of the mortgage using the effective interest rate method.

**6. MORTGAGE PAYABLE (continued)**

Principal repayments, as of December 31, 2016, based on scheduled repayments to be made on the mortgage payable over the next three years to maturity are as follows:

2017	\$ 125,168
2018	129,870
2019	4,150,251
	<b>\$ 4,405,289</b>

**7. NON-CONTROLLING INTEREST**

As at December 31, 2016, the initial limited partners of the Master LP, the general partner of the Master LP, the general partner of the Investments LP and the general partner of the Developments LP collectively represented the non-controlling interest of the Trust.

The non-controlling interest of the Trust at December 31, 2016 and December 31, 2015 is as follows:

Non-controlling interest	Ownership as at December 31, 2016	Ownership as at December 31, 2015
Initial limited partners of the Master LP	13.15%	13.06%
General partner of the Master LP	0.00%	0.00%
General partner of the Investments LP	0.00%	0.00%
General partner of the Developments LP	0.00%	0.00%

The ownership interest of the initial limited partners of the Master LP increased from 13.06% as at December 31, 2015 to 13.15% as at December 31, 2016 as a result of the redemption of limited partnership units of the Master LP by the Trust. On February 9, 2016, the Trust redeemed 96 limited partnership units of the Master LP for a total redemption price of \$96,000. On November 24, 2016, the Trust redeemed 4 limited partnership units of the Master LP for a total redemption price of \$4,000.

The general partner of the Master LP, the general partner of the Investments LP and the general partner of the Developments LP had nominal ownership interests of less than 0.01% as at December 31, 2016 and December 31, 2015.

**8. UNITHOLDERS' EQUITY**

Unitholders' equity represents Trust units. The Trust is authorized to issue an unlimited number of redeemable units of beneficial interest. Each Trust unit entitles the Trust unitholder to the same rights and obligations as any other Trust unitholder and no Trust unitholder is entitled to any privilege, priority or preference in relation to any other Trust unitholders.

Each Trust unitholder is entitled to participate equally with respect to any and all distributions of net income and net realized capital gains, subject to an adjustment in a Trust unit's proportionate share as a result of the date of first issue of a Trust unit in the first fiscal year of the Trust. On termination, the Trust unitholders of record are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

**8. UNITHOLDERS' EQUITY (continued)**

The Trust entered into an agency agreement dated December 22, 2014, pursuant to which it filed a prospectus dated December 22, 2014 in each of the provinces of Canada, except Quebec, in connection with its initial public offering (the "Offering") to sell a minimum of 10,000 Trust units and a maximum of 30,000 Trust units at a price of \$1,000 per Trust unit. Costs related to the Offering included agents' fees of \$60 per Trust unit.

On December 30, 2014, the Trust issued 10,623 trust units at \$1,000 per unit pursuant to the Offering for gross proceeds of \$10,623,000. On February 5, 2015, the Trust issued an additional 2,277 trust units at \$1,000 per unit pursuant to the Offering for gross proceeds of \$2,277,000. The proceeds of the Offering were used to acquire Master LP units.

Pursuant to the agency agreement, the agents received a commission equal to 6% of the gross proceeds of the Offering. In consideration of ongoing services provided by the agents and sub-agents to the Trust, and as a further incentive to the agents or any sub-agents, the Master GP has agreed to pay to the agents or any sub-agents a trailer fee equal to 10% of any amounts realized by the Master GP in respect of its incentive management interest.

Since the Trust invests in the Master LP, which in turn then invests in the Investments LP and the Developments LP, the Trust indirectly is a limited partner in the Investments LP and Developments LP. Trust unitholders are entitled, by way, and to the extent, of the Trust's investment in Master LP units to a minimum non-compounded annual return of 7% of the net equity then outstanding and a return of capital before any amount is paid to the Master GP on account of the Master GP's incentive management interest.

On February 9, 2016, the Trust received a redemption request. The redemption of 96 units was effective as of the same date for total consideration of \$92,112. The full redemption amount of \$92,112 was paid in May 2016.

On November 24, 2016, the Trust received a second redemption request. The redemption of 4 units was effective as of the same date for total consideration of \$3,838. The full redemption amount of \$3,838 was outstanding and included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 – \$nil).

During the year ended December 31, 2016, the Trust accrued distributions of \$299,906 to the Trust unitholders (year ended December 31, 2015 – \$200,000) and distributions of \$45,408 to the non-controlling interest of the Master LP (year ended December 31, 2015 – \$30,047). As at December 31, 2016, total distributions of \$345,314 were included in distributions payable (December 31, 2015 – \$230,047).

**9. CAPITAL MANAGEMENT**

The Trust defines capital as the aggregate of unitholders' equity and the mortgage payable. The Trust's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to its initial offering prospectus dated December 22, 2014 (the "Prospectus"), complies with existing debt covenants, funds its business strategies and builds long-term unitholders' value. The Trust's capital structure is reviewed by the Board from time to time.

**9. CAPITAL MANAGEMENT (continued)**

On a monthly basis, the Trust monitors the “loan-to-value ratio”, which is defined as overall mortgage loans divided by the purchase price of the properties plus the amount of any property improvement reserve account approved by the lenders as a whole and which serves as an indicator of the Trust’s financial leverage. The overall loan-to-value ratio is targeted at not more than 70%, as indicated in the Prospectus. However, if deemed appropriate by the Trust, having regard to all of the circumstances including the potential value of the properties identified for investment, the Trust may cause the overall loan-to-value ratio of the mortgage loans to exceed this threshold. The Trust’s loan-to-value ratio was 70% as at December 31, 2016 (December 31, 2015 – 72%). The Trust was in compliance with the loan-to-value restriction and all other non-financial restrictions during the years ended December 31, 2016 and December 31, 2015.

The capital structure consisted of the following components at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015	Change
Capital			
Mortgage payable	\$ 4,360,165	\$ 4,464,760	\$ (104,595)
Unitholders’ equity	11,542,657	12,163,620	(620,963)
<b>Total capital</b>	<b>\$ 15,902,822</b>	<b>\$ 16,628,380</b>	<b>\$ (725,558)</b>

During the year ended December 31, 2016, the Trust’s total capital decreased due to mortgage repayments, the loss incurred during the year and the redemption of 100 units (note 8).

**10. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value in the statement of financial position or for which fair value disclosure is required in the notes to the financial statements are classified based on a three-level hierarchy that reflects the significance of the inputs used when determining the fair value as described in note 3(K).

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Trust determines whether transfers have occurred between levels in the hierarchy by reassessing categorization based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period.

The investment property is the only asset measured at fair value by the Trust on the statement of financial position. The investment property is measured under level 3 of the fair value hierarchy. The Trust does not have any liabilities designated as fair value through profit or loss.

For the purpose of fair value disclosures, the Trust has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in note 3(K).



**10. FINANCIAL INSTRUMENTS (continued)**

**Fair value of financial instruments (continued)**

The following table presents the carrying amounts and fair values of the Trust's financial instruments:

Financial instruments	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 843,353	\$ 843,353	\$ 1,844,270	\$ 1,844,270
Amounts receivable	685	685	1,560	1,560
Due from related parties	921,797	921,797	542,485	542,485
Accounts payable and accrued liabilities	119,959	119,959	258,301	258,301
Distributions payable	345,314	345,314	230,047	230,047
Mortgage payable	4,360,165	4,405,289	4,464,760	4,525,818

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

(i) *Other assets and other liabilities*

The carrying values of financial assets and financial liabilities not measured at fair value, including cash, amounts receivable, due from related parties, distributions payable and accounts payable and accrued liabilities, approximate their fair values due to the immediate or short-term maturity of these financial instruments or because they are receivable or payable on demand.

(ii) *Mortgages payable*

The fair values of amounts due for the mortgage payable are determined by discounting the future contractual cash flow under current financing arrangements at discount rates which represent borrowing rates presently available to the Trust for loans with similar terms and maturity and are measured under level 2 of the fair value hierarchy since the discount rates are either provided by the lenders or are observable on the open market (note 3(K)).

There were no transfers between levels in the fair value hierarchy during the years ended December 31, 2016 and December 31, 2015.

**11. RISK MANAGEMENT**

The Board has the overall responsibility for the establishment and oversight of the Trust's risk management framework. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Trust's activities. In the normal course of business, the Trust is exposed to a number of risks from its use of financial instruments. These risks include, but are not limited to, credit risk, liquidity risk, currency risk, lease rollover risk, income tax risk, interest rate risk, environmental risk and trust unit redemption risk.

*a. Credit risk*

Credit risk is the risk of financial loss to the Trust if a tenant or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Trust's receivables from tenants and investment securities.

**11. RISK MANAGEMENT (continued)**

**a. Credit risk (continued)**

The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The Trust is currently facing higher credit risk since it has only one tenant. The Trust will minimize the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process should the Trust acquire more properties.

**b. Liquidity risk**

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Trust were required to liquidate a real estate property investment, the proceeds to the Trust might be significantly less than the aggregate carrying value of such property.

The Trust's approach to managing liquidity risk is to ensure that it will have sufficient cash available to meet its liabilities when due. The Trust intends to refinance any mortgages which mature within the next six months or settle the mortgages from the proceeds of the sale of all or part of the respective property.

The following table provides the future non-discounted scheduled payments of financial liabilities, including estimated interest payments:

	2017	2018	2019
Mortgage payable (principal and interest)	\$ 286,885	\$ 286,885	\$ 4,277,279
Distributions payable	345,314	–	–
Accounts payable and accrued liabilities	119,959	–	–
	<b>\$ 752,158</b>	<b>\$ 286,885</b>	<b>\$ 4,277,279</b>

**c. Currency risk**

The Trust is not exposed to currency risk since there are no foreign subsidiaries and the Trust does not enter into foreign currency transactions.

**d. Lease rollover risk**

Lease rollover risk arises from the possibility that the Trust may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. The Trust currently has only one lease with a seven year term that expires in 2021.

**e. Income tax risk**

*Mutual Fund Trust* – If the Trust does not qualify or ceases to qualify as a “mutual fund trust” under the Tax Act, adverse consequences may arise including that: (i) the Trust may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the Trust would be reduced and Trust unitholders may otherwise be adversely affected), and (ii) the Trust units may not be or may cease to be qualified investments for RRSP or similar plans (with the result that a plan, its annuitant, beneficiary thereunder or its holder thereat will generally become subject to additional tax or penalties or may be otherwise adversely affected).

**11. RISK MANAGEMENT (continued)**

*e. Income tax risk (continued)*

*SIFT Rules* – The exposure of the Trust to tax imposed by the SIFT Rules depends in part on whether or not the Trust units, Master LP units or units of any other subsidiary partnerships are listed or traded on a stock exchange or other public market. If the Trust units, the Master LP units or units of any other subsidiary partnerships were to be listed or traded on a stock exchange or public market, adverse consequences could arise including that the non-deductible distributions amount or the taxable non-portfolio earnings could be taxable to the Trust, to the Master LP or such subsidiary partnerships, as the case may be (with the result that the amount of cash available for distribution by the Trust would be reduced), and such amount would also, depending on the circumstances, be included in the income of Trust unitholders for purposes of the Tax Act as taxable dividends.

*Changing Tax Laws* – There can be no assurance that income tax laws (or the judicial interpretation thereof or the administrative and assessing practices of Canada Revenue Agency) and/or the treatment of “mutual fund trusts” or SIFTS will not be changed in a manner which would adversely affect the Trust unitholders, including on a retroactive basis.

*f. Interest rate risk*

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Trust is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The Trust manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimizing interest expense. Whenever possible, the Trust tries to obtain fixed rate mortgages to mitigate its interest rate risk. Since the Trust’s current mortgage payable bears interest at a fixed rate, the Trust is not exposed to significant interest rate risk.

The interest rate profile of the Trust's interest-bearing financial instruments was:

	Face Value	
	December 31, 2016	December 31, 2015
<b>Fixed rate instruments</b>		
Fixed rate mortgage payable	\$ 4,405,289	\$ 4,525,818

*g. Environmental risk*

The Trust, through the Investments LP, the Developments LP and certain equity-accounted investments, is subject to various provincial and municipal laws relating to the environment. Prior to acquisition, the Trust conducts environmental inspections of its properties and appropriate testing by qualified environmental consultants when required to ensure compliance with all applicable environmental laws.

*h. Redemption risk*

The Trust unitholders are entitled to have their units redeemed at any time on demand. The aggregate redemption price payable by the Trust is subject to limitations. The Trust will not be required to pay the redemption price by way of a cash payment if the total amount payable by the Trust in any quarter will exceed \$100,000 or if the amount payable in any twelve month period ending at the end of that quarter will exceed 0.75% of the aggregate subscription price of all Trust units that were issued and outstanding at the start of such twelve month period.

**11. RISK MANAGEMENT (continued)**

*h. Redemption risk (continued)*

During the year ended December 31, 2016, the Trust redeemed 100 units for total consideration of \$95,950 (note 8), which represented 0.74% of the aggregate subscription price of all Trust units that were issued and outstanding as at December 31, 2016 (year ended December 31, 2015 – nil units redeemed).

**12. LEASES**

The Trust, through the Investments LP, entered into a lease agreement with the tenant of 22<sup>nd</sup> Avenue. The lease is for seven years and the tenant has the option to renew for two terms of three years each at prevailing market rates. The Trust can recover property tax, insurance and management fees from the tenant. The management fee is 2.0% of the basic rent according to the lease agreement.

Future minimum rental revenue receivable under the non-cancellable operating lease is as follows:

	As at December 31, 2016	As at December 31, 2015
Within one year	\$ 462,704	\$ 453,632
After one year, but not more than five years	1,791,480	1,907,086
More than five years	–	347,099
	<b>\$ 2,254,184</b>	<b>\$ 2,707,817</b>

**13. RELATED PARTY TRANSACTIONS**

**Trustee Compensation**

Each trustee of the Trust, other than Stephen Evans, is entitled to an annual fee of \$12,500. During the year ended December 31, 2016, the Trust paid trustee fees of \$25,000 (2015 – \$25,000).

**Transactions with Pure Commercial Real Estate Advisors Inc.**

Pure Commercial Real Estate Advisors Inc. (“Pure Commercial”) is related to the Trust by virtue of having officers and directors/trustees in common. The Trust, through the Master LP, has entered into an asset management agreement with Pure Commercial, whereby Pure Commercial provides asset management, administrative and reporting services to the Trust. In consideration of these services, the Trust pays to Pure Commercial an annual asset management fee equal to 1.0% of net asset value plus any applicable taxes. Net asset value is equal to the greater of the total gross cash proceeds from all the Trust’s public offerings and the total purchase price of the properties including all fees, expenses and cash reserves, less outstanding mortgage debt. During the year ended December 31, 2016, Pure Commercial charged the Trust asset management fees of \$135,450 (year ended December 31, 2015 – \$131,728). As at December 31, 2016, asset management fees of \$nil (December 31, 2015 – \$11,288) were included in accounts payable and accrued liabilities.

The Trust, through the Investments LP, entered into a property management agreement with Pure Commercial, whereby Pure Commercial provides property management services to 22<sup>nd</sup> Avenue and collects 2.0% of the basic annual rent as a property management fee. During the year ended December 31, 2016, Pure Commercial charged the Trust property management fees of \$9,073 (year ended December 31, 2015 – \$8,901). Property management fees of \$nil were included in accounts payable and accrued liabilities as at December 31, 2016 (December 31, 2015 – \$nil).

**13. RELATED PARTY TRANSACTIONS (continued)**

**Transactions with Triple E Ventures Inc.**

Triple E Ventures Inc. (“Triple E”) is related to the Trust by virtue of having officers and directors/trustees in common. In September 2014, Triple E paid a deposit for the acquisition of 22<sup>nd</sup> Avenue and a commitment fee for the mortgage on 22<sup>nd</sup> Avenue in the aggregate amount of \$123,250. Triple E also advanced \$1,000 to the Trust to cover administration expenses. In September 2015, the Trust, through the Investments LP, repaid \$123,250 to Triple E. In December 2015, the Trust repaid \$1,000 to Triple E. As at December 31, 2016, \$nil was included in accounts payable and accrued liabilities (December 31, 2015 – \$nil).

**Transactions with Sui Generis Investments Ltd.**

Sui Generis Investments Ltd. (“Sui Generis”) is related to the Trust by virtue of having officers and directors/trustees in common. Effective July 1, 2016, the Master LP agreed to pay Sui Generis a fee of \$15,000 per annum plus any applicable taxes, payable quarterly, for certain consulting and advisory services provided by Sui Generis. This amount does not represent a new fee but rather a reallocation of what was previously paid to another consultant. During the year ended December 31, 2016, Sui Generis charged the Master LP fees of \$7,875 (year ended December 31, 2015 – \$nil). As of December 31, 2016, \$3,938 was included in accounts payable and accrued liabilities (December 31, 2015 – \$nil).

**Transactions with the Initial Limited Partners of the Master LP**

The initial limited partners of the Master LP are related to the Trust by virtue of the fact that three of the initial limited partners are trustees of the Trust. According to the Prospectus, the maximum expenses of the Offering, inclusive of agents’ fees and expenses, were not to exceed 1.5% of the maximum offering or 2.0% of the minimum offering. Due to the size of the initial and second offerings, actual offering expenses exceeded the maximum amount. Certain of the initial limited partners of the Master LP agreed to pay the offering expenses above the maximum amount. The total of \$230,114 was received by the Master LP in October 2015. As at December 31, 2016, \$nil is included in due from related parties and still outstanding (December 31, 2015 – \$nil).

**Transactions with the Master GP**

The Master GP is related to the Trust by virtue of having officers and directors/trustees in common. The Master GP held cash on behalf of the Master LP before the Master LP opened its bank account. The total amount of \$137,985 was included in due from related parties as at December 31, 2014. The full amount was received by the Master LP in January 2015. During the year ended December 31, 2015, the Trust paid a \$148 expense on behalf of the Master GP and the Master GP received interest on the funds held on the Master LP’s behalf in the amount of \$90. The Master LP received \$88 from the Master GP in April 2015. As at December 31, 2016, \$151 was outstanding and included in due from related parties (December 31, 2015 – \$151).

**Transactions with WCPG VII LP**

WCPG VII LP is related to the Trust by virtue of the fact that the Trust, through the Developments LP, subscribed for 262,500 units of WCPG VII LP at \$1 per unit for a total of \$262,500 on May 7, 2015 (note 5). During the year ended December 31, 2015, the Trust, through the Developments LP, loaned \$2,351,889 to WCPG VII LP to fund working capital requirements, secured by a loan on WCPG VII LP’s property under development for sale. The loan has a maximum amount of \$2,795,556 and bears interest at 10% per annum. In June 2016, the loan matured and was extended to June 2017, with an interest rate of 15% per annum, effective July 1, 2016. The mortgage is repayable from the release by the City of Fort St. John of any security deposits held as security for the subdivision work to be completed at WCPG VII LP’s development property, Garrison Landing, and from the proceeds from sales of subdivision lots at Garrison Landing, after repayment of mortgages ranking in priority to this mortgage. During the year ended December 31, 2016, WCPG VII LP repaid \$nil and the Trust earned interest income of \$51,113 on the loan (year ended December 31, 2015 – \$1,943,435 and \$104,216 respectively). Principal and interest of \$563,783 was included in due from related parties as at December 31, 2016 (December 31, 2015 – \$512,670).

**13. RELATED PARTY TRANSACTIONS (continued)**

**Transactions with WCPG VII LP (continued)**

In June 2016, the Trust, through the Developments LP, loaned WCPG VII LP a further \$304,000 to fund working capital requirements. The loan bears interest at 15% and matures in June 2017. During the year ended December 31, 2016, the Trust earned interest income of \$23,174 on the loan (year ended December 31, 2015 – \$nil). Principal and interest of \$327,174 was included in due from related parties as at December 31, 2016 (December 31, 2015 – \$nil).

**Transactions with FSJ Aurora LP**

FSJ Aurora LP is related to the Trust by virtue of the fact that the Trust, through the Developments LP, subscribed for 2,300,000 limited partnership units of FSJ Aurora LP for a total of \$2,300,000 on October 20, 2015 (note 5). The remaining 50% of FSJ Aurora LP is indirectly owned by officers and trustees or directors of the Trust and the Master GP. During the year ended December 31, 2015, the Trust, through the Developments LP, advanced \$29,650 to FSJ Aurora LP to cover working capital requirements. During the year ended December 31, 2016, the Trust, through the Developments LP, advanced a further \$1,009 to FSJ Aurora LP to cover working capital requirements. The total loan of \$30,659 is non-interest bearing, repayable on demand and was included in due from related parties as at December 31, 2016 (December 31, 2015 – \$29,650).

**14. SEGMENTED INFORMATION**

The Trust operates in two business segments in a single geographic location, being the owner and operator of investment properties and the owner and developer of development properties in northwestern Canada. For each of the business segments, the Acting Chief Executive Officer reviews operations based on earnings from property operations and sales. As at December 31, 2016 and December 31, 2015, the Trust operated one investment property and had interests in one additional investment property and two development properties through its equity-accounted investments (note 5). Assets and liabilities are reviewed on a total basis by management and therefore are not included in the segmented disclosure below.

**REALnorth Opportunities Fund**  
**Notes to Consolidated Financial Statements**  
**Expressed in Canadian Dollars**

**14. SEGMENTED INFORMATION (continued)**

The following summarizes the results of operations for the Trust's segments for the year ended December 31, 2016:

Year ended December 31, 2016	Development	Investment	Trust	Total
<b>NET RENTAL INCOME (EXPENSES)</b>				
Rental revenue and recoveries	\$ –	\$ 685,005	\$ –	\$ 685,005
Insurance	–	(10,734)	–	(10,734)
Management fees	–	(9,073)	–	(9,073)
Property taxes	–	(195,240)	–	(195,240)
	–	469,958	–	469,958
<b>NET FINANCE INCOME (EXPENSE)</b>				
Interest income	84,603	955	412	85,970
Mortgage interest	–	(181,934)	–	(181,934)
	84,603	(180,979)	412	(95,964)
<b>NET OTHER INCOME (EXPENSES)</b>				
General and administrative	(39,595)	(6,057)	(193,532)	(239,184)
Asset management fees	–	–	(135,450)	(135,450)
Fair value adjustments to investment property	–	54,146	–	54,146
	(39,595)	48,089	(328,982)	(320,488)
<b>SHARE OF INCOME (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS</b>	(290,079)	(18,570)	–	(308,649)
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	(245,071)	318,498	(328,570)	(255,143)
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Unitholders	(212,879)	276,674	(288,902)	(225,107)
Non-controlling interest	(32,192)	41,824	(39,668)	(30,036)
	\$ (245,071)	\$ 318,498	\$ (328,570)	\$ (255,143)
<b>Earnings per unit</b>				
Basic and diluted	\$ (16.61)	\$ 21.59	\$ (22.55)	\$ (17.57)
<b>Weighted average number of units</b>				
Basic and diluted	12,814	12,814	12,814	12,814

**REALnorth Opportunities Fund**  
**Notes to Consolidated Financial Statements**  
**Expressed in Canadian Dollars**

**14. SEGMENTED INFORMATION (continued)**

The following summarizes the results of operations for the Trust's segments for the year ended December 31, 2015:

Year ended December 31, 2015	Development	Investment	Trust	Total
<b>NET RENTAL INCOME (EXPENSES)</b>				
Rental revenue and recoveries	\$ –	\$ 674,998	\$ –	\$ 674,998
Insurance	–	(10,731)	–	(10,731)
Management fees	–	(8,901)	–	(8,901)
Property taxes	–	(185,880)	–	(185,880)
	–	469,486	–	469,486
<b>NET FINANCE INCOME (EXPENSE)</b>				
Interest income	106,519	1,133	67,783	175,435
Mortgage interest	–	(186,167)	–	(186,167)
	106,519	(185,034)	67,783	(10,732)
<b>NET OTHER INCOME (EXPENSES)</b>				
General and administrative	(83,382)	(14,370)	(168,091)	(265,843)
Asset management fees	–	–	(131,728)	(131,728)
Fair value adjustments to investment property	–	225,571	–	225,571
	(83,382)	211,201	(299,819)	(172,000)
<b>SHARE OF INCOME (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS</b>				
	307,338	(3,296)	–	304,042
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>				
	330,475	492,357	(232,036)	590,796
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Unitholders	287,312	428,050	(205,153)	510,209
Non-controlling interest	43,163	64,307	(26,883)	80,587
	\$ 330,475	\$ 492,357	\$ (232,036)	\$ 590,796
<b>Earnings per unit</b>				
Basic and diluted	\$ 22.66	\$ 33.75	\$ (16.18)	\$ 40.23
<b>Weighted average number of units</b>				
Basic and diluted	12,682	12,682	12,682	12,682

**15. SUBSEQUENT EVENTS**

On January 25, 2017, the Trust received a request to redeem 15 Trust units. On February 9, 2017, the Trust received a request to redeem an additional 60 Trust units. The redemptions were effective on the date the requests were received.

On January 31, 2017, the Trust paid the outstanding redemption amount of \$3,838 related to the November 24, 2016 redemption of 4 Trust units (note 8).