BCI

QuadReal

Mortgages: Mezzanine Mortgage & US Mortgage Opportunity - Pooled Fund Financial Statements

DECEMBER 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

British Columbia Investment Management Corporation ("BCI") manages Pooled Investment Portfolios on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. QuadReal Property Group Limited Partnership and affiliates ("QuadReal") manage the Mortgage and Real Estate programs pursuant to asset management agreements as agreed to between BCI and QuadReal. This report contains the financial statements for the following Pooled Investment Portfolios for the year ended December 31, 2019:

- Mezzanine Mortgage Fund
- US Mortgage Opportunity Fund

The financial statements of these Pooled Investment Portfolios have been prepared by QuadReal and approved by the BCI Chief Investment Officer/Chief Executive Officer. All of the financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies used in the preparation of these statements are disclosed in note 3 to the financial statements. The statements include certain amounts that are based on management's judgement and best estimates.

BCI's Board has established an Audit Committee. The BCI Committee's mandate includes oversight of the financial statements of the Pooled Investment Portfolio's managed by QuadReal through a governance framework established with QuadReal's Board and Audit Committee. Through this governance framework, the BCI Committee mandate is executed through oversight from QuadReal's Audit Committee and includes making recommendations on the appointment of the external auditor for the Pooled Investment Portfolios, reviewing the external audit plan; reviewing BCI's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, including QuadReal related controls, and reviewing the annual audited financial statements of the Pooled Investment Portfolios. The BCI Committee and QuadReal Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

BCI and QuadReal maintain a system of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. BCI's and QuadReal's internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organizational structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and adherence to BCI Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. BCI's and QuadReal's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the BCI and QuadReal Audit Committees.

BCI's and QuadReal's external auditors, KPMG LLP, have full and unrestricted access to the BCI and QuadReal Audit Committees and BCI and QuadReal management. KPMG LLP discusses with management and the Committees the results of their audit of the Pooled Investment Portfolios' financial statements and related findings with respect to such audits. The Pooled Investment Portfolio financial statements is audited by KPMG LLP in accordance with Canadian generally accepted auditing standards. KPMG LLP has performed such tests and other procedures as they considered necessary to express an opinion on the Pooled Investment Portfolio financial statements.

Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer, BCI
Chief Investment Officer, BCI

Dennis Lopez

Dennis Lopez
Chief Executive Officer, QuadReal

Tamara Lawson

Tamara Lawson
Chief Financial Officer, QuadReal

June 24, 2020

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INDEPENDENT AUDITORS' REPORT

To the unitholders of the following Mortgage Pooled Investment Portfolios:
Mezzanine Mortgage Fund
US Mortgage Opportunity Fund
(collectively, the "Funds")

Opinion

We have audited the financial statements of the Funds, which comprise:

- the statements of financial position as at December 31, 2019
- the statements of comprehensive income for the year then ended
- the statements of changes in net assets attributable to holders of redeemable units for the year then ended
- the statements of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Funds as at December 31, 2019, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

We are independent of the Funds in accordance with the ethical requirements that are relevant to our audits 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 the Manager and Those Charged with Governance for the Financial Statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the Manager 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, the Manager is responsible for assessing the Funds' abilities to continue as going concerns, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Funds or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- 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 Funds' internal control.

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

- Conclude on the appropriateness of the Manager'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 Funds' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Funds 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 audits.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
June 24, 2020

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND
(Expressed in thousands except number of units)

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	Note		2019		2018
Assets					
Cash		$	56	$	-
Investment in QuadReal Receivable	4		1,956		-
Investments			158,814		124,103
Total assets			160,826		124,103
Liabilities					
Management fees payable			1,127		-
BCI and QuadReal cost recoveries payable	4		79		365
Other accounts payable			350		12
Total liabilities			1,556		377
Net assets attributable to holders of redeemable units		$	159,270	$	123,726
Number of redeemable units outstanding	5		26.637		22.583
Net assets attributable to holders of redeemable units per unit		$	5,979	$	5,479
Unfunded committed capital	6				
Subsequent events	10				

See accompanying notes to financial statements.

Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND
(Expressed in thousands except number of units)

Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	Note	2019	2018
Revenue:			
Interest income		$ 2	$ 3
Change in fair value of investments:			
Net realized gain		12,551	31,641
Net change in unrealized appreciation (depreciation)		5,114	(13,116)
		17,667	18,528
Expenses:			
BCI and QuadReal cost recoveries	4	564	1,020
Management fees		1,187	-
Administrative and professional fees		22	28
		1,773	1,048
Increase in net assets attributable to holders of redeemable units from operations excluding distributions		15,894	17,480
Distributions to holders of redeemable units from net realized gains on investments		(10,781)	(30,399)
Increase (decrease) in net assets attributable to holders of redeemable units		$ 5,113	$ (12,919)

See accompanying notes to financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND

(Expressed in thousands except number of units)

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Balance, beginning of year	$ 123,726	$ 192,446
Increase (decrease) in net assets attributable to holders of redeemable units	5,113	(12,919)
Redeemable unit transactions:		
Proceeds from units issued	62,000	8,300
Reinvestment of distributions	10,781	30,399
Amounts paid for units redeemed	(42,350)	(94,500)
Net increase (decrease) from redeemable unit transactions	30,431	(55,801)
Balance, end of year	$ 159,270	$ 123,726

See accompanying notes to financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND
(Expressed in thousands except number of units)

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations		
Increase (decrease) in net assets attributable to holders of redeemable units	$ 5,113	$ (12,919)
Adjustments for:		
Interest income	(2)	(3)
Net realized gain from investments	(12,551)	(31,641)
Net change in unrealized (appreciation) depreciation from investments	(5,114)	13,116
Non-cash distributions	10,781	30,399
Proceeds from sale of investments	43,306	96,163
Amounts paid for purchase of investments	(62,308)	(9,095)
Management fees payable	1,127	-
BCI and QuadReal cost recoveries payable	(286)	176
Other accounts payable	338	1
Interest received	2	3
	(19,594)	86,200
Financing:		
Proceeds from issuance of redeemable units	62,000	8,300
Payments on redemption of redeemable units	(42,350)	(94,500)
	19,650	(86,200)
Increase in cash	56	-
Cash, beginning of year	-	-
Cash end of year	$ 56	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND
(Expressed in thousands except number of units)

Schedule of Investments

December 31, 2019

	December 31, 2019		December 31, 2018	
	Fair value	Cost	Fair value	Cost
Mortgage investments [1]	$ 158,814	$ 110,779	$ 123,945	$ 79,068
Money Market investments:				
Units in BCI Pooled Investment Portfolio FundST1	-	-	158	158
Total investments	$ 158,814	$ 110,779	$ 124,103	$ 79,226

[1] The mortgage investments are held through private corporations.

(Expressed in thousands except number of units)

Schedule of Financial Risk Management Discussion

December 31, 2019

The investment objectives, eligible investments and general information on the financial risks related to the Mezzanine Mortgage Fund are described in note 7(a) of the financial statements. The information contained in this Schedule of Financial Risk Management Discussion pertains specifically to the Mezzanine Mortgage Fund.

The Fund holds its mortgage investments through private corporations. The private corporations hold the following net assets:

	2019			2018		
		Amount	%		Amount	%
Fixed-Rate Mortgages	$	57,650	36.3%	$	62,349	50.3%
Variable-Rate Mortgages		48,000	30.2%		8,000	6.5%
Other Mortgage Investments		52,386	33.0%		52,091	42.0%
Cash		354	0.2%		-	-
Money Market Funds		-	-		1,118	0.9%
Other Net Receivables		424	0.3%		387	0.3%
Total Net Assets of Limited Partnership	$	158,814	100.0%	$	123,945	100.0%

The Fund’s activities expose it to a variety of financial risks. For purposes of describing the financial risks of the Fund, the composition of the net assets held by the underlying corporations and their investing activities have been considered. The other mortgage investments consist of limited partnerships and co-investment/parallel investment agreements and often involve equity participation.

Credit risk

The Fund invests in leveraged properties where the possibility of a borrower defaulting on payment obligations is higher than conventional mortgages. In the event of a default, the Fund may hold assets that otherwise would not be permitted provided the holdings are approved by the Chief Investment Officer ("CIO") and accepting the assets is deemed to be in the best interest of the Fund participants.

Some of the mortgages and other mortgage investments may have a higher loan-to-value ratio than traditional first mortgages. In exchange for the higher levels of risk associated with mortgages of this nature, the Mezzanine Mortgage Fund requires additional compensation and/or additional security provisions. As such, mortgage terms may involve equity participation in the development project to achieve higher rates of return and compensate for additional credit risk.

The fair value of mortgage investments as disclosed in the Schedule of Investments represents the Fund’s maximum exposure to credit risk. See additional credit risk discussion in note 7(b) of the financial statements.

Liquidity risk

The Fund’s financial assets include unlisted mortgage investments, which are generally illiquid. As a result, the Fund may not be able to liquidate some of its investments in these instruments in due time to meet its obligations when they become due. However, the CIO may obtain funding from unitholders of the Fund through additional unit issuances to meet the Fund’s ongoing liquidity requirements.

The Fund’s liabilities are due within three months of the year-end of the Fund. Please refer to note 7(c) of the financial statements for additional discussion of liquidity risk.

(Expressed in thousands except number of units)

Interest rate risk

The Fund invests in mortgages with terms ranging from 1 to 5 years. Mezzanine mortgages may have fixed or floating interest rates. The duration of these fixed and floating rate mortgages is 1.9 years (2018 - 1.2 years). Mortgage terms may involve equity participation in the development project to achieve higher internal rates of return. The interest rates of the floating rate mortgage are based on bank prime lending rates plus a risk and liquidity premium. Therefore, the floating rate mortgages do not have significant exposure to interest rate risk. Lending rates for fixed-rate mortgages are determined based on the current yield of Government of Canada debt securities with a similar term to maturity plus a risk and liquidity premium. Please refer to note 7(d)(i) of the financial statements for additional discussion of interest rate risk.

As at December 31, the Fund invested in mortgages with the following terms to maturity:

	2019		2018	
Mortgages by maturity date	Amount	Average effective yield %	Amount	Average effective yield %
Variable-Rate Mortgages:				
Within 1 year	$ 8,000	N/A	$ 8,000	N/A
1 to 5 years	40,000	N/A	-	N/A
Fixed-Rate Mortgages:				
Within 1 year	27,832	12.5%	13,387	10.9%
1 to 5 years	29,818	11.7%	48,962	12.4%
Total mortgages	$ 105,650	12.0%	$ 70,349	12.1%

As at December 31, 2019 if the interest rate had increased/decreased by 1 percent, holding all other variables constant, net assets would have decreased/increased by $643 (2018 - $863) representing 0.4% of the Fund's net assets (2018 - 0.7%).

Currency risk

General information on currency risks is described in note 7(d)(ii) of the financial statements. The Fund is not exposed to significant currency risk since the Fund’s net financial assets and liabilities are denominated in Canadian dollars.

(Expressed in thousands except number of units)

Other price risk

Mortgages by Industry Sector

Investments in the Fund are diversified across industry sectors. Predominant sectors to which the Fund had exposure as at December 31 are as follows, with certain mortgage investments having exposure to other smaller segments:

	2019			2018		
Industry sector	Amount	Mortgage count	%	Amount	Mortgage count	%
Residential						
Total Fixed-Rate and Variable-Rate Mortgages	$ 65,650	4	41.6%	$ 70,349	4	57.5%
Total Other Mortgage Investments	52,386	7	33.1%	52,091	7	42.5%
Retail						
Total Variable-Rate Mortgages	40,000	1	25.3%	-	-	-
Total mortgages	$ 158,036	12	100.0%	$ 122,440	11	100.0%

As at December 31, 2019 and 2018, had the fair value of the investments increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased by approximately $15,881 (2018 - $12,410) or 10.0% (2018 - 10.0%) of net assets attributable to holders of redeemable units.

General information on other price risk related to the Construction Mortgage Fund is described in note 7(d)(iii) of the financial statements. Actual trading results may differ from the above sensitivity analysis and the difference could be material.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
MEZZANINE MORTGAGE FUND
(Expressed in thousands except number of units)

Schedule of Fair Value Measurement

December 31, 2019

As described in note 8 of the financial statements, a three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Fund’s financial instruments.

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statement of Financial Position. All fair value measurements noted in the tables below are recurring.

All fair value measurements noted in the tables below are recurring:

	December 31, 2019			
	Level 1 Quoted price in active market	Level 2 Significant observable inputs	Level 3 Significant Unobservable inputs	Total
Fixed-Rate Mortgages	$ -	$ 5,927	$ 51,723	$ 57,650
Variable-Rate Mortgages	-	48,000	-	48,000
Other Mortgage Investments	-	-	52,386	52,386
Cash	-	354	-	354
Other Net Receivables	-	156	268	424
Total investments	$ -	$ 54,437	$ 104,377	$ 158,814

	December 31, 2018			
	Level 1 Quoted price in active market	Level 2 Significant observable inputs	Level 3 Significant Unobservable inputs	Total
Fixed-Rate Mortgages	$ -	$ 62,349	$ -	$ 62,349
Variable-Rate Mortgages	-	8,000	-	8,000
Other Mortgage Investments	-	-	52,091	52,091
Money Market Funds	1,276	-	-	1,276
Other Net Receivables	-	387	-	387
Total investments	$ 1,276	$ 70,736	$ 52,091	$ 124,103

During the current year, the Fund transferred 2 mortgage investments (2018 - nil) whose borrower experienced financial difficulty from Level 2 to Level 3 of the fair value hierarchy. The valuation inputs for these mortgage investments were not therefore based on significant observable inputs and resulted in the reclassification to Level 3. There were no other transfers within the levels of the fair value hierarchy.

(Expressed in thousands except number of units)

Schedule of Fair Value Measurement (continued)

December 31, 2019

The carrying amount of the Fund's net assets attributable to the holders of redeemable units also approximates fair value as they are measured at redemption amount and classified as Level 2 and Level 3 in the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

		2019		2018
Balance, beginning of year	$	52,091	$	66,662
Total losses recognized in profit or loss		(4,658)		(3,127)
Purchases		8,385		171
Sales		(3,432)		(11,615)
Transfers into Level 3		51,991		-
Balance, end of year	$	104,377	$	52,091
Total unrealized losses for the year included in profit or loss relating to financial assets and liabilities held at the reporting date	$	(4,372)	$	(2,557)

There were no significant transfers into or out of Level 3 during 2018.

(Expressed in thousands except number of units)

Schedule of Fair Value Measurement (continued)

December 31, 2019

Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at year-end in measuring the fair value of mortgage investments categorized as Level 3 in the fair value hierarchy as at December 31:

				December 31, 2019		
Investments	**Fair value**	**Valuation technique**	**Unobservable input**	**Amount/ range**	**Weighted average**	**Sensitivity to change in significant unobservable input**
Fixed-Rate Mortgages and Other Net Receivables	$ 51,991	Discounted cash flow	Discount rate	12% - 20%	12.5%	The estimated fair value would increase (decrease) if the discount rate was higher (lower).
Other Mortgage Investments	$ 43,099	Net asset value	Net asset value	$ 43,099	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).
	$ 9,287	Discounted cash flow	Discount rate	12% - 20%	13.0%	The estimated fair value would increase (decrease) if the discount rate was higher (lower).

				December 31, 2018		
Investments	**Fair value**	**Valuation technique**	**Unobservable input**	**Amount/ range**	**Weighted average**	**Sensitivity to change in significant unobservable input**
Other Mortgage Investments	$ 38,527	Net asset value	Net asset value	$ 38,527	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).
	$ 13,564	Discounted cash flow	Discount rate	12% - 20%	13.0%	The estimated fair value would increase (decrease) if the discount rate was higher (lower).

Significant unobservable inputs are developed as follows:

(i) Net asset value:

Represents the net asset value of the unlisted mortgage investments investee funds. Management values these funds primarily based on the latest available financial information provided by their general partners.

(ii) Discount rate:

Represents the discount rate applied to the expected future cash flows. For the discount rates used, management assesses both the risk premium and the appropriate risk free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

Schedule of Fair Value Measurement (continued)

December 31, 2019

Effects of unobservable inputs on fair value measurement

Although management believes that its estimates of fair value in Level 3 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value and net assets attributable to holders of redeemable units.

The following table shows how net assets attributable to holders of redeemable units would change if the valuations of other mortgage investments were calculated by adjusting the respective other mortgage investments' net assets by 10%.

	2019	2018
Favourable	$ 5,200	$ 5,200
Unfavourable	(5,200)	(5,200)

(Expressed in thousands except number of units)

Schedule of Involvement with Structured Entities

December 31, 2019

The Fund's investments are held primarily through four intermediary holding corporations, all of which constitute structured entities. Structured entities are entities that have been designed so that voting or other similar rights are not the dominant factor in determining who controls the entity. These structured entities have been set up to manage legal, tax and other risks that may arise in the course of administering the underlying investments. The carrying amount of these entities, approximately $158,814 (2018 - $123,945), is shown under Investments in the Statement of Financial Position.

In addition, the Fund holds interests in other structured entities, both directly and indirectly (i.e. through the intermediary holding corporations). The other structured entities are comprised of directly held investee money market funds organized as unit trusts and indirectly held investee funds organized as limited partnerships, co-investments, syndicate investments and equity participation investments. All of these investee funds have been constituted to manage assets on behalf of third party investors and are financed through the issuance of units to investors or capital contributions made by the investors. Accordingly, the Fund's interest in these entities is reflected through the holding of trust units, partnership units or a partnership interest.

The Fund disposed its interests in the structured entity which directly held investee money market funds in first half of 2019. The tables below set out the direct and indirect interests held by the Fund in these other structured entities.

	December 31, 2019		
Entity	Number of investee funds	Total net assets of investee funds	Carrying amount included in the statement of financial position
Unlisted mortgage investments investee funds administered by third party managers	7	275,866	$ 52,386

	December 31, 2018		
Entity	Number of investee funds	Total net assets of investee funds	Carrying amount included in the statement of financial position
Investee money market funds administered by BCI	1	$ 1,699,706	$ 1,276
Unlisted mortgage investments investee funds administered by third party managers	7	252,837	52,091

The carrying amount of the investments held in these underlying funds represents the Fund's maximum exposure to loss. During 2019 and 2018, the Fund did not provide financial support to these structured entities and has no intention of providing financial or other support.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
US MORTGAGE OPPORTUNITY FUND
(Expressed in thousands except number of units)

Statement of Financial Position

December 31, 2019, with comparative information for 2018

	Note	2019	2018
Assets			
Cash		$ 15,351	$ -
Investment in QuadReal receivable	4	17,452	-
Other accounts receivable		-	21,353
Investments	4	1,331,165	576,622
Total assets		1,363,968	597,975
Liabilities			
Management fees payable		3,188	-
BCI and QuadReal cost recoveries payable	4	758	868
Other accounts payable		683	12
Total liabilities		4,629	880
Net assets attributable to holders of redeemable units		$ 1,359,339	$ 597,095
Number of redeemable units outstanding	5	56,199.531	24,862.053
Net assets attributable to holders of redeemable units per unit		$ 24	$ 24
Unfunded committed capital	6		
Subsequent events	10		

See accompanying notes to financial statements.

Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
US MORTGAGE OPPORTUNITY FUND
(Expressed in thousands except number of units)

Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	Note	2019	2018
Revenue:			
Interest income		$ 57,492	$ 29,489
Foreign exchange loss		(545)	(44)
Change in fair value of investments:			
Net realized gain		1,553	376
Net change in unrealized (depreciation) appreciation		(17,236)	28,873
		41,264	58,694
Expenses:			
BCI and QuadReal cost recoveries	4	3,142	4,899
Management fees		3,357	-
Administrative and professional fees		282	231
Pursuit costs		464	685
		7,245	5,815
Increase in net assets attributable to holders of redeemable units from operations excluding distributions		34,019	52,879
Distributions to holders of redeemable units:			
From net investment income		(50,013)	-
From net realized gains on investments		(1,649)	-
		(51,662)	-
(Decrease) increase in net assets attributable to holders of redeemable units		$ (17,643)	$ 52,879

See accompanying notes to financial statements.

(Expressed in thousands except number of units)

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Balance, beginning of year	$ 597,095	$ 60,694
(Decrease) increase in net assets attributable to holders of redeemable units	(17,643)	52,879
Redeemable unit transactions:		
Proceeds from units issued	810,833	502,179
Reinvestment of distributions	51,662	-
Amounts paid for units redeemed	(82,608)	(18,657)
Net increase from redeemable unit transactions	779,887	483,522
Balance, end of year	$ 1,359,339	$ 597,095

See accompanying notes to financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
US MORTGAGE OPPORTUNITY FUND
(Expressed in thousands except number of units)

Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operating activities:		
(Decrease) increase in net assets attributable to holders of redeemable units	$ (17,643)	$ 52,879
Adjustments for:		
Effect of exchange rate changes on cash	545	44
Interest income	(57,492)	(29,489)
Net realized gain from investments	(1,553)	(376)
Net change in unrealized depreciation (appreciation) from investments	17,236	(28,873)
Non-cash distributions	51,662	-
Proceeds from sale of investments	53,522	29,814
Amounts paid for purchase of investments	(841,201)	(516,431)
Other accounts receivable	21,353	(21,353)
Management fees payable	3,188	-
BCI and QR cost recoveries payable	(110)	818
Other accounts payable	671	-
Interest received	57,493	29,489
	(712,329)	(483,478)
Financing activities:		
Proceeds from issuance of redeemable units	810,833	502,179
Payments on redemption of redeemable units	(82,608)	(18,657)
	728,225	483,522
Increase in cash	15,896	44
Effect of exchange rate changes on cash	(545)	(44)
Cash, beginning of year	-	-
Cash end of year	$ 15,351	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
POOLED INVESTMENT PORTFOLIOS
US MORTGAGE OPPORTUNITY FUND
(Expressed in thousands except number of units)

Schedule of Investments

December 31, 2019

	Note	December 31, 2019 Fair value	December 31, 2019 Cost	December 31, 2018 Fair value	December 31, 2018 Cost
Mortgage investments [1]		$ 175,020	$ 154,963	$ 132,893	$ 116,647
Loans	4	1,156,145	1,181,625	440,260	427,240
Money Market investments:					
Units in BCI Pooled Investment Portfolio:					
Fund ST1		-	-	7	7
Fund ST3		-	-	3,462	3,461
Total investments		$ 1,331,165	$ 1,336,588	$ 576,622	$ 547,355

[1] The mortgage investments are held through a private corporation and a trust.

(Expressed in thousands except number of units)

The investment objectives, eligible investments and general information on the financial risks related to the US Mortgage Opportunity Fund are described in note 7(a) of the financial statements. The information contained in this Schedule of Financial Risk Management Discussion pertains specifically to the US Mortgage Opportunity Fund.

The Fund holds its mortgage investments through a private corporation and a trust and its related party loans directly. The Fund, corporation and trust hold the following underlying net assets and direct loans:

	2019		2018	
	Amount	%	Amount	%
Unlisted Mortgage Investee Fund	$ 163,383	12.3%	$ 129,340	22.6%
Money Market Funds	-	-	3,553	0.6%
Cash	11,637	0.9%	-	-
Loans	1,156,145	86.8%	440,260	76.8%
	$ 1,331,165	100.0%	$ 573,153	100.0%

The Fund’s activities expose it to a variety of financial risks. For purposes of describing the financial risks of the Fund, the composition of the net assets held by the underlying corporation and trust and their investing activities have been considered.

Credit risk

The Fund has indirect exposure to credit risk through its investment in shares of an unlisted mortgage investee fund, whose underlying investments are susceptible to credit risk. Such indirect exposure is managed by the external manager in conjunction with investment level decisions.

The Fund's loans were made to a closely held private company which is a related party as described in note 4. Due to the private nature of the loans, they are not subject to rating by a rating agency. The maximum credit risk exposure is $1,156,145 (2018 - $440,260).

See additional credit risk discussion in note 7(b) of the financial statements.

Liquidity risk

The Fund’s financial assets include an unlisted mortgage investee fund and loans, which are generally illiquid. As a result, the Fund may not be able to liquidate its investment in these instruments in due time to meet its obligations when they become due. However, the Chief Investment Officer ("CIO") may obtain funding from unitholders of the Fund through additional unit issuances to meet the Fund’s ongoing liquidity requirements.

The Fund’s liabilities are due within three months of the year-end of the Fund. Please refer to note 7(c) of the financial statements for additional discussion of liquidity risk.

Interest rate risk

The Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates. The Fund has indirect exposure to interest rate risk through its investment in shares of an unlisted mortgage investee fund, whose underlying investments are susceptible to interest rate risk. Such indirect exposure is managed by the external manager in conjunction with their investment level decisions. Please refer to note 7(d)(i) of the financial statements for additional discussion of interest rate risk.

At December 31, the Fund has loans outstanding to a borrower whose underlying investments are variable rate mortgage investments. As a result, the Fund's loans do not have significant exposure to interest rate risk.

Currency risk

The Fund holds net financial assets totaling $1,346,513 which represents 99.1% of the net asset value of the Fund (2018 - $597,871) which represented 100.1% of the net asset value of the Fund. As at December 31, if the Canadian dollar had strengthened/weakened by 1 percent in relation to all other currencies, holding all other variables constant, net assets would have decreased/ increased, respectively, by $13,465 (2018 - $5,979), representing 1.0% of the Fund’s net assets (2018 - 1.0%). In practice, the actual trading results may differ from the above sensitivity analysis and the difference could be material. Please refer to note 7(d)(ii) of the financial statements for additional discussion of currency risk.

As at December 31, the Fund had additional exposure to currency risk through its future unfunded commitments totaling $1,857,974 (2018 - $1,392,831). As at December 31, if the Canadian dollar had strengthened/weakened by 1 percent in relation to all other currencies, holding all other variables constant, future unfunded commitments would have decreased/increased, respectively, by $18,580 (2018 - $13,928). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Total unfunded committed capital related to the Fund is described in note 6 of the financial statements.

Other price risk

As at December 31, the Fund made loans to a private company and held an investment in one unlisted mortgage investee fund. The underlying mortgage investee fund is concentrated solely in the United States.

As at December 31, had the fair value of the mortgage investee fund and the loans increased or decreased by 10% with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively, by approximately $131,953 (2018 - $56,960) or 10.0% (2018 - 10.0%) of net assets attributable to holders of redeemable units. Actual trading results may differ from the above sensitivity analysis and the difference could be material. General information on other price risk related to the US Mortgage Opportunity Fund is described in note 7(d)(iii) of the financial statements.

(Expressed in thousands except number of units)

Schedule of Fair Value Measurement

December 31, 2019

As described in note 8 of the financial statements, a three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Fund’s financial instruments.

The tables below analyze financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statement of Financial Position.

All fair value measurements noted in the tables below are recurring.

	December 31, 2019			
	Level 1 Quoted price in active market	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Unlisted Mortgage Investee Fund	$ -	$ -	$ 163,383	$ 163,383
Cash	-	11,637	-	11,637
Loans	-	699,365	456,780	1,156,145
Total investments	$ -	$ 711,002	$ 620,163	$ 1,331,165

	December 31, 2018			
	Level 1 Quoted price in active market	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Unlisted Mortgage Investee Fund	$ -	$ -	$ 129,340	$ 129,340
Money Market Funds	7,022	-	-	7,022
Loans	-	269,475	170,785	440,260
Total investments	$ 7,022	$ 269,475	$ 300,125	$ 576,622

During 2019 and 2018, there were no significant transfers between Level 1 and Level 2.

The carrying amount of the Fund’s net assets attributable to the holders of redeemable units also approximate fair value as they are measured at redemption amount and is classified as Level 2 and Level 3 in the fair value hierarchy.

(Expressed in thousands except number of units)

Schedule of Fair Value Measurement (continued)

December 31, 2019

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	2019		
	Unlisted Mortgage Investee Fund	Loans	Total
Balance, beginning of year	$ 129,340	$ 170,785	$ 300,125
Total losses recognized in profit or loss	(7,257)	(15,759)	(23,016)
Purchases	52,789	301,754	354,543
Sales	(11,489)	-	(11,489)
Balance, end of year	$ 163,383	$ 456,780	$ 620,163
Total unrealized losses for the year included in profit or loss relating to financial assets and liabilities held at the reporting date	$ (6,780)	$ (15,759)	$ (22,539)

	2018		
	Unlisted Mortgage Investee Fund	Loans	Total
Balance, beginning of year	$ 60,586	$ -	$ 60,586
Total gains (losses) recognized in profit or loss	5,834	(8,704)	(2,870)
Purchases	122,057	179,489	301,546
Sales	(59,137)	-	(59,137)
Balance, end of year	$ 129,340	$ 170,785	$ 300,125
Total unrealized gains (losses) for the year included in profit or loss relating to financial assets and liabilities held at the reporting date	$ 3,990	$ (8,704)	$ (4,714)

During 2019 and 2018, there were no significant transfers into or out of Level 3.

(Expressed in thousands except number of units)

Schedule of Fair Value Measurement (continued)

December 31, 2019

Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at year-end in measuring the fair value of other the Fund’s unlisted mortgage investee fund and loans categorized as Level 3 in the fair value hierarchy as at December 31:

		December 31, 2019			
Investments	**Fair value**	**Valuation technique**	**Unobservable input**	**Amount/ range**	**Sensitivity to change in significant unobservable input**
Unlisted Mortgage Investee Fund	$ 163,383	Unadjusted net asset value	Net asset value	$ 163,383	The estimated fair value would increase (decrease) if the net asset value of the unlisted mortgage investee was higher (lower).
Loans	$ 456,780	Residual value	Residual value	$ 456,780	The estimated fair value would increase (decrease) if the residual value of an internally management investment entity was higher (lower).

		December 31, 2018			
Investments	**Fair value**	**Valuation technique**	**Unobservable input**	**Amount/ range**	**Sensitivity to change in significant unobservable input**
Unlisted Mortgage Investee Fund	$ 129,340	Unadjusted net asset value	Net asset value	$ 129,340	The estimated fair value would increase (decrease) if the net asset value of the unlisted mortgage investee was higher (lower).
Loans	$ 170,785	Residual value	Residual value	$ 170,785	The estimated fair value would increase (decrease) if the residual value of an internally management investment entity was higher (lower).

Significant unobservable inputs are developed as follows:

(i) Net asset value:

Represents the net asset value of the unlisted mortgage investments investee funds. Management values these funds primarily based on the latest available financial information provided by their general partners.

The unlisted mortgage investee fund is subject to redemption restrictions and accordingly the Fund is unable to dispose of the investee until the maturity or wind up and liquidation of the respective investee. In such cases, it is the Fund’s policy to categorize the investee as Level 3 within the fair value hierarchy.

(ii) Residual value:

Represents the residual value of an internally managed investment entity which is calculated based on the fair value of mortgage investments held by the investment entity, adjusted for the investment entity's working capital and the fair value of the variable rate loan from the Fund to the investment entity.

Schedule of Fair Value Measurement (continued)

December 31, 2019

Effects of unobservable inputs on fair value measurement

The unlisted mortgage investee fund is valued based on information received from the external manager through a co investment arrangement. The fair value of this investment fluctuates in response to changes in specific assumptions for that particular investee as determined by the external manager.

The management estimates the fair market value of the Fund's loans. The fair value of these investments fluctuates in response to changes in specific assumptions for the key unobservable inputs.

Although the Fund believes that its estimates of fair value in Level 3 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value and net assets attributable to the holders of redeemable units.

The following table shows how the net assets attributable to holders of redeemable units would change if the valuations of the unlisted mortgage investee fund and loan investments were calculated by adjusting the respective other mortgage investments' net assets by 10%.

	2019	2018
Favourable	$ 62,016	$ 30,013
Unfavourable	(62,016)	30,013

(Expressed in thousands except number of units)

Schedule of Involvement with Structured Entities

December 31, 2019

The Fund's investments are held primarily through one intermediary holding corporation and a trust, which constitute structured entities. Structured entities are entities that have been designed so that voting or other similar rights are not the dominant factor in determining who controls the entity. These structured entities have been set up to manage legal, tax and other risks that may arise in the course of administering the underlying investments. The carrying amount of these entities of approximately $175,020 (2018 - $132,893) is shown under Investments in the Statement of Financial Position.

In addition, the Fund holds interests in other structured entities, both directly and indirectly (i.e. through the intermediary holding corporations). The other structured entities are comprised of directly held investee money market funds organized as unit trusts, and indirectly held investee funds organized as limited partnerships, co-investments, syndicate investments, and equity participation investments.

The Fund disposed its interests of its investee money market funds in first half of 2019. The tables below set out the direct and indirect interests held by the Fund in these other structured entities:

	December 31, 2019		
Entity	Number of investee funds	Total net assets of investee funds	Carrying amount included in the statement of financial position
Unlisted mortgage investments investee funds administered by third party managers	1	$ 608,363	$ 163,383

	December 31, 2018		
Entity	Number of investee funds	Total net assets of investee funds	Carrying amount included in the statement of financial position
Investee money market funds administered by BCI	2	$ 2,522,200	$ 7,022
Unlisted mortgage investments investee funds administered by third party managers	1	625,869	129,340

The carrying amount of the investments held in these underlying funds represents the Fund's maximum exposure to loss. During 2019 and 2018, the Fund did not provide financial support to these structured entities and has no intention of providing financial or other support.

(Expressed in thousands except number of units)

1. The portfolios:

British Columbia Investment Management Corporation ("BCI") was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. The address of BCI's registered office is 750 Pandora Avenue, Victoria, British Columbia, Canada.

QuadReal Property Group Limited Partnership and affiliates ("QuadReal") manage the Mortgage Funds pursuant to an Asset Management Agreement as agreed to between BCI and QuadReal. These financial statements have been prepared by QuadReal. In 2018, the financial statements were prepared by BCI.

Under the Public Sector Pension Plans Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99 (the "Regulations"), BCI may establish and operate pooled investment portfolios "…. in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios (the "Funds") previously established under the Financial Administration Act and the Pooled Investment Portfolios Regulation, B.C. Reg. 84/86, were continued under the Pooled Investment Portfolios Regulation, B.C. Reg. 447/99, to be held in trust by BCI and invested by the Chief Investment Officer of BCI.

The Funds were established on the following dates:

Pooled Investment Portfolios	Dates established
Mezzanine Mortgage Fund	September 28, 1999
US Mortgage Opportunity Fund	August 10, 2016

2. Basis of preparation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements were authorized for issue by the BCI Chief Executive Officer/Chief Investment Officer on June 24, 2020.

(b) Basis of measurement:

These financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars which is the Funds’ functional currency.

(d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected.

3. Significant accounting policies:

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

(a) Financial instruments:

(i) Recognition and measurements:

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities are recognized initially on the trade date, which is the date on which the Funds become a party to the contractual provisions of the instrument. The Funds derecognize a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Funds have a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settles the liability simultaneously.

A financial asset is measured at amortized cost if it meets both of the following conditions:

- 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.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and selling financial assets; 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):

(a) Financial instruments (continued):

(i) Recognition and measurements (continued):

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Funds irrevocably elects to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Funds change their business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Funds have not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivative financial liabilities. On initial recognition the Funds irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit or loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of comprehensive income in the period in which they occur. The Fund's investment in QuadReal receivable, investments and redeemable units are classified as FVTPL.

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. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

(ii) Fair value through profit or loss (continued):

The fair value of financial assets and liabilities that are not traded in an active market, is determined using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of management, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(iii) Amortized cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Funds classify cash, management fees payable, BCI and QuadReal cost recoveries payable, and other accounts payable as amortized cost.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(b) Redeemable units:

The Funds classify financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. In accordance with the Regulations, the Funds are required to distribute to unitholders the Funds' redeemable units, the taxable income and taxable capital gains of the Funds at least annually. Accordingly, such units are classified as financial liabilities at FVTPL and measured at redemption amount. Distributions to holders of redeemable units are recognized in the statement of comprehensive income when they are authorized.

3. Significant accounting policies (continued):

(c) Issue and redemption of units:

Participation in each Fund is expressed in units. The initial value of a unit on inception is $1 million. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the portfolio by the total number of units outstanding. Where one Fund invests in another Fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis.

The Mezzanine Mortgage Fund is a fixed participation fund where participation is fixed for the life of the Fund.

The US Mortgage Opportunity Fund is an open participation Fund that opens the first business day of the year. The number of units available for issue was unlimited and the proportion of units issued or redeemed by each client on the Fund opening date depended on changes to their desired asset allocation.

(d) Revenue recognition:

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity securities is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments. Commissions and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs are charged to the statement of comprehensive income of the respective Funds in the period incurred.

(e) Income taxes:

The Funds qualify as inter vivos trusts under section 108(1) of the Income Tax Act (Canada). All of the Funds' net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Funds. As a result, the Funds do not record income taxes. Income taxes associated with any of the Funds' underlying investments are accounted for in determining the fair value of the respective investments.

4. Related party transactions:

The Funds' related parties include QuadReal, BCI, the Province of British Columbia and related entities, investments where the Funds have a controlling interest or significant influence, and other related entities for which the Funds provide investment management services. The Funds had the following transactions with related parties for the year ended December 31, 2019:

BCI and QuadReal cost recoveries

The Funds incurred cost recoveries from BCI and QuadReal, including indirect costs initially paid by BCI and QuadReal. These costs were recovered from the Funds through cost recoveries charged by BCI and QuadReal. BCI and QuadReal cost recoveries and the corresponding payable are disclosed in the Fund's Statement of Comprehensive Income and Statement of Financial Position, respectively.

Investment in QuadReal receivable

During 2019, the Funds acquired an interest in QuadReal, its manager, which amounted to 10.66% of the outstanding interest of the manager.

Related party loans

The US Opportunity Mortgage Fund extended credit to QuadReal Finance Inc. (previously Jutland Finance Inc.) in the form of two revolving loans – one variable rate loan in the aggregate principal amount of $2.58 billion and one participating loan in the aggregate principal amount of $1.72 billion for the purpose of financing the origination and acquisition by QuadReal Finance Inc. of U.S. mortgage secured loan investments. As of December 31, 2019, the market value of the variable rate loan outstanding was $699,365 (2018 - $269,475) and the participating loan outstanding was $456,780 (2018 - $170,785). QuadReal Finance Inc. is wholly owned by British Columbia Investment Management Corporation, the trustee of the Fund.

The interest on the variable rate loan is based on LIBOR plus 3.75% and the interest on the participating loan is based on the lesser of 95% of the net profit of QuadReal Finance Inc. over the average outstanding principal amount of the loan during the interest period or 12% per annum. The terms in these loans reflect fair market value based on an arms' length transaction.

(Expressed in thousands except number of units)

5. Redeemable units:

The Funds are authorized to issue an unlimited number of units. Units issued and outstanding represent the capital of each Fund. The Funds are not subject to any internally or externally imposed restrictions on their capital. Capital of each Fund is managed in accordance with the respective Fund's investment objectives, including managing the redeemable units to ensure a stable base to maximize returns to all investors, and managing liquidity in order to meet redemptions.

The following is a summary of the changes in redeemable units outstanding during the year ended:

	Mezzanine Mortgage Fund		US Mortgage Opportunity Fund	
	2019	2018	2019	2018
Outstanding, beginning of year	22.583	39.543	24,862.053	2,816.449
Issued for cash	11.348	1.691	34,824.651	22,880.191
Issued on reinvestment of distributions	1.853	5.951	2,134.860	-
Consolidation of units	(1.853)	(5.951)	(2,134.860)	-
Redeemed	(7.294)	(18.651)	(3,487.173)	(834.587)
Outstanding, end of year	26.637	22.583	56,199.531	24,862.053

6. Unfunded committed capital:

Unfunded capital commitments represent total commitments minus net contributions outstanding as of the reporting date. Net contributions equal contributions less any recallable capital distributions. Recallable capital are distributions or previously contributed capital that has been returned, that may be recalled at some future date. Thus, due to changes in recallable capital, unfunded commitments may change at different reporting dates.

Furthermore, commitments to unlisted mortgage investee funds and direct private debt investments are typically made in US dollars or Canadian dollars, but reported in Canadian dollars. Unfunded commitments are translated at the spot rate and net contributions are translated at historical exchange rates. Therefore, due to foreign exchange movements, unfunded commitments will vary on the reporting date.

6. Unfunded committed capital (continued):

The amounts in the table represent the contractual undiscounted cash commitments that can be called on demand.

	Unfunded committed capital 2019	Unfunded committed capital 2018
Mezzanine Mortgage Fund	$ 58,206	$ 74,728
US Mortgage Opportunity Fund	1,857,974	1,392,831

7. Financial risk management:

(a) Risk management framework:

Each Fund has its own investment objectives. The Funds' overall risk management program seeks to minimize the potentially adverse effect of risk on the Funds' financial performance in a manner consistent with the Funds' investment objectives. In the normal course of business, each Fund is exposed to financial risks including credit risk, liquidity risk, and market risk (including interest rate risk, currency risk and other price risk). The level of risk varies depending on the investment objective of the Funds and the type of investments they hold. The mandates and investment policies are described below.

Mezzanine Mortgage Fund

The Mezzanine Mortgage Fund invests in highly levered real estate loans that provide investors with higher returns to compensate for the increased risks. These mortgages may provide fixed term or construction financing for multi-family residences (e.g. apartments, condominiums, and seniors' developments), office, retail and industrial buildings. The Fund does not provide mortgages for single-family homes. The Fund maintains a prudent level of diversification. The additional risks associated with construction projects are mitigated by requiring the involvement of only experienced developers, obtaining construction engineer evaluations, requiring significant pre-sales/pre-leasing levels and sufficient profit margin levels, as well as obtaining additional security provisions from borrowers. The performance benchmark for the Mezzanine Mortgage Fund is the FTSE Canada 365 Day T-Bill Index plus 440 basis points.

7. Financial risk management (continued):

(a) Risk management framework (continued):

Mezzanine Mortgage Fund (continued)

The Fund may invest in the following securities:

- Canadian first, second or third mortgages, or equity participation investments, on commercial property or raw land;
- Directly or indirectly, units/shares in Canadian mortgage trusts, mortgage funds, limited partnerships, co-investment agreements, and parallel investments agreements, where the underlying assets comply with these investment policies;
- A/B Notes, providing noteholders with a pro rata interest in a first mortgage loan or loans, with the security in favour of holders of B Notes subordinated to the security in favour of corresponding A Notes;
- Units in the Canadian Money Market Funds (ST1) and (ST2) for cash management purpose; and
- Units in the Floating Rate Funds.

BCI, as trustee of the Pool, has the power to vary the investments and assets of the Pool and reinvest proceeds realized from the investments of the Pool all within the bounds of the investment policies, rules and restrictions established for and governing the Pool.

US Mortgage Opportunity Fund

The US Mortgage Opportunity Fund is an open participation pool consisting of higher risk real estate loans that provide investors with higher returns to compensate for the increased risks. These mortgages may provide fixed term or construction financing for multi-family residences, office, retail, hospitality, industrial buildings and land development. The Fund does not provide mortgages for single-family homes, however it may provide financing on single-family land subdivisions. The Fund maintains a prudent level of diversification. The additional risks associated with construction projects are mitigated by requiring the involvement of only experienced developers, obtaining construction engineer evaluations, requiring significant pre-sales/pre-leasing levels and sufficient profit margin levels, as well as, obtaining additional security provisions from borrowers where applicable. The performance benchmark for the US Mortgage Opportunity Fund is the 30-day USD LIBOR plus 240 basis points.

7. Financial risk management (continued):

(a) Risk management framework (continued):

US Mortgage Opportunity Fund (continued):

The Fund may invest in the following securities:

- US first, second and third mortgages, structured financing, and/or equity participation investments, on properties or raw land;
- Directly or indirectly, units/shares in US mortgage trusts, mortgage funds, limited partnerships, co-investment agreements, and parallel investment agreements where the underlying assets comply with these investment policies;
- Units in pooled funds of external managers provided such holdings are permissible investments for the Pool; and
- Units in the US Dollar Money Market Fund (ST3) and other BCI short-term fixed income pooled funds for cash management purposes.

BCI, as trustee of the Pool, has the power to vary the investments and assets of the Pool and reinvest proceeds realized from the investments of the Pool all within the bounds of the investment policies, rules and restrictions established for and governing the Pool.

(b) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds, resulting in a financial loss to the Funds. It arises principally from debt securities held, cash and other receivables due to the Funds. The carrying value of these financial instruments as recorded in the statements of financial position reflects the Funds' maximum exposure to credit risk.

To avoid undue credit risk, the Funds have established specific investment criteria, such as minimum credit ratings for investees and counterparties. Counterparty risk represents the credit risk from current potential and future exposure related to transactions. In order to minimize counterparty risk, counterparties are required to provide adequate collateral and meet minimum credit rating requirements. Management frequently monitors the credit rating of its counterparties as determined by credit rating agencies and assesses mortgage investments for impairment, including significant changes in credit risk.

7. Financial risk management (continued):

(b) Credit risk (continued):

The Funds' activities may also give rise to settlement risk. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities, or other assets prior to the settlement of the transaction as contractually agreed. All investment transactions are settled or paid upon delivery with approved brokers. The risk of default is mitigated since the delivery of securities sold is made simultaneously with the broker receiving payment. Payment is made on a purchase once the securities have been received by the broker. The trade fails if either party fails to meet its obligations.

See additional discussion of credit risk in the Financial Risk Management Discussion in the notes specific to each Fund.

(c) Liquidity risk:

Liquidity risk is the risk that the Funds will encounter difficulty in meeting the obligations associated with their financial liabilities that are settled by delivering cash or another financial asset. QuadReal's approach to managing liquidity risk is to ensure, as far as possible, that each Fund has sufficient liquidity to meet its liabilities when due. Each Fund is exposed to the liquidity risk associated with the requirement to redeem units. Units of the Funds may only be acquired by eligible clients or client groups in accordance with the respective Fund's purchasing limits that may be established by the Chief Investment Officer ("CIO"). In order to protect the interest of all clients, the CIO may also establish redemption limits for each Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

The Funds' cash position is monitored on a daily basis. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. The Funds' liquidity position is monitored daily by taking into consideration future forecasted cash flows. This attempts to ensure that sufficient cash reserves are available to meet forecasted cash outflows.

See additional discussion of liquidity risk in the Financial Risk Management Discussion in the notes specific to each Fund.

7. Financial risk management (continued):

(d) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Funds' income or the fair value of their holdings of financial instruments. Each Fund's strategy for the management of market risk is driven by the Fund's investment objective. Investment objectives for the Funds are outlined in the notes specific to each Fund.

(i) Interest rate risk:

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

The mortgages are subject to interest rate risk. The Funds have established duration bands based on their relevant benchmarks to avoid undue active interest rate risk.

See additional discussion of interest rate risk in the Financial Risk Management Discussion in the notes specific to each Fund.

(ii) Currency risk:

Currency risk is the risk that the fair value of financial instruments denominated in currencies other than the functional currency of the Funds will fluctuate due to changes in foreign exchange rates.

See additional discussion of currency risk in the Financial Risk Management Discussion in the notes specific to each Fund.

(iii) Other price risk:

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

All financial instruments are subject to other price risk and a potential loss of capital. The maximum risk is determined by the market value of the financial instruments. There are established investment criteria for each Fund related to diversification of investments and investment mandates for external managers to avoid undue market risk.

See additional discussion of other price risk in the Financial Risk Management Discussion in the notes specific to each Fund.

8. Fair value of financial instrument:

(a) Fair value hierarchy:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Funds determine fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Funds measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1 - inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 - inputs that are unobservable.

See additional discussion on the three-tier hierarchy in the Fair Value Measurement Discussion in the notes specific to each Fund.

(b) Valuation models:

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Funds use widely recognized valuation methods for determining the fair value of common and simpler financial instruments. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exists and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, money market prices, and foreign currency exchange rates in estimating valuations of foreign currency contracts.

8. Fair value of financial instrument (continued):

(b) Valuation models (continued):

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple OTC derivatives. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(c) Valuation framework:

When third-party information, such as broker quotes or pricing services, is used to measure fair value, then management assesses and documents the evidence obtained from third-parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

(d) Financial instruments not measured at fair value:

The carrying value of cash, management fees payable, BCI and QuadReal cost recoveries payable and other accounts payable approximate their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

9. Taxes:

Net cumulative capital losses and non-capital losses for each Fund having such losses are as follows:

	December 31, 2019	
Pooled Investment Portfolios	Net capital losses	Non-capital losses
Mezzanine Mortgage Fund	$ 1	$ -
US Mortgage Opportunity Fund	48	-

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains. Non-capital losses may be carried forward up to 20 years to reduce future taxable income.

10. Subsequent events:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. COVID-19 and its negative impact on the global economy has resulted in a decline in the global financial market and significantly increased volatility. Given the extent of the crisis, it is difficult to estimate the duration of the increased volatility or the ultimate impact on the investment performance of the Funds.