TREZ CAPITAL

TG INCOME TRUST III

Management Discussion and Analysis
Fourth Quarter 2018
December 31, 2018

Management’s Discussion and Analysis

Basis of Presentation

This Management’s Discussion and Analysis (“MD&A”) has been prepared and includes material financial information as of March 29, 2019. This MD&A should be read in conjunction with the audited financial statements for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

All dollar amounts in this MD&A are in Canadian dollars.

Additional information related to TG Income Trust III (the “Trust”), including the Trust’s audited financial statements for the year ended December 31, 2018 are available on SEDAR at www.sedar.com or www.trezcapital.com.

Forward-Looking Statements

This MD&A may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like “believe”, “expects”, “anticipates”, “would”, “will”, “intends”, “projected”, “in our opinion” and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Trust will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results as intended, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Trust is able to invest in mortgages or loans of a quality that will generate returns that meet or exceed the Trust’s targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Trust may invest in and the risks detailed from time to time in the Trust’s public disclosures.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Trust, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Trust and Trez Capital Fund Management LP (the “Manager”) do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

Non-IFRS Financial Measures

The Trust prepares and releases its financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Trust discloses certain financial measures not recognized under IFRS which do not have standard meanings prescribed by IFRS. These measures include the following:

- Income from operations per unit – represents the income from operations for the period divided by the total number of Series A, C and D units outstanding at the reporting date;
- Mortgage portfolio – represents investments in mortgages net of accrued interest and fees receivable, and mortgage syndications;
- Average mortgage investment – represents the mortgage portfolio divided by the number of mortgage investments at the reporting date;
- Weighted average interest rate – represents the weighted average effective interest rate on the mortgage portfolio at the reporting date; and
- Loan-to-value ("LTV") – is a measure of risk determined at the time of loan underwriting calculated as (i) the sum of advanced and un-advanced mortgage commitments on a mortgage investment, including all other third party advanced and un-advanced debt which has priority or ranks pari-passu to the Trust's debt (ii) divided by the pro forma estimate of the value of the underlying real estate collateral at that time if already developed or after completion of development in the case of a development project. Weighted average LTV is the dollar weighted average of mortgage LTVs in a portfolio.

Non-IFRS measures should not be construed as alternatives to net income (loss) or comprehensive income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of the Trust's performance.

Review and Approval by the Board of Governors

The Board of Governors approved the content of this MD&A on March 29, 2019.

Financial Highlights and Key Performance Indicators

	Three months ended December 31		Year ended December 31	
	2018	**2017**	**2018**	**2017**
OPERATING RESULTS				
Revenue	1,578,712	1,030,099	5,315,965	2,989,601
Income from operations	1,307,576	972,257	4,706,216	2,873,322
Income from operations per Series A, C, and D units	0.19	0.14	0.81	0.78
Cash flow from operations	990,555	(371,932)	2,325,902	(143,167)
Distributions to Series A, C, and D unitholders	1,003,762	603,293	3,441,890	1,775,030
FINANCIAL POSITION				
Redeemable units outstanding (Series A, C, and D)			5,794,320	3,664,268
Subordinated units outstanding			289,717	183,213
Total assets			64,114,829	39,445,418
Mortgage portfolio			60,268,112	33,625,600
Total number of mortgage investments			32	25
Average mortgage investments			1,883,379	1,345,024
Weighted average interest rate			11.01%	12.37%
Weighted average loan to value			71.31%	67.14%

Revenue increased by $0.5m and $2.3m for the three months and year ended December 31, 2018 compared to the same periods in 2017. The increase from 2017 was mostly due to an increase in investments in mortgages of $26.6m from the year ended 2017.

Income from operations includes interest income from loans invested in both Canada and the United States, other income, and related foreign exchange gains or losses. Income from operations increased by $0.3m and $1.8m for the three months and year ended December 31, 2018 compared to 2017. This again was the result of increased revenues associated with an increase in investments in mortgages.

Distributions to unitholders vary by unit series type. The series currently issued and outstanding in the Trust are Series A, B, C, and D units. The Series A, C, and D redeemable units have a term of 45 months from the date of issuance, at which time they are redeemed at a price equal to the subscription price of $10 per unit. The Series A, C, and D redeemable units have a fixed return of 7.10%, 7.20%, and 7.50% per annum respectively. The Trust makes a distribution to the Series B subordinated units on a quarterly basis. The amount to be distributed is an estimate of the expected annual distribution based on the year-to-date financial results of the Trust. The Series B distribution to be made in respect of the December 31 year-end will be equal to the amount by which the taxable income and the non-taxable portion of the net realized capital gains of the Trust for the particular year exceeds the sum of : (a) the aggregate fixed return for all Series A, C and D redeemable units for such year (including the non-taxable portion of any realized capital gains attributed thereto); and (b) the previous distributions made to the Series B unitholder in that year. The year-end distribution will be paid in arrears upon completion of the year end audit.

During the three months and year ended December 31, 2018, the Trust made distributions of $1.0m and $3.4m to holders of Series A, C, and D redeemable units. Distributions to Series B subordinated units are $0.5m and $1.5m for the three months and year ended December 31, 2018. As at December 31, 2018, $1.0 million and $0.5 million are payable to the holders of Series A, C, and D redeemable units and Series B subordinated units respectively.

Total assets are comprised of cash, margin deposits, deferred financing cost, investments in mortgages and amounts receivable. The most significant assets at December 31, 2018 are investments in mortgages of $62.1m, margin deposit of $0.4m, and cash of $1.6m.

As at December 31, 2018, the Trust's mortgage investment portfolio was comprised 32 mortgages of which 27 were invested in the United States and the remaining 5 invested in Canada. The mortgage investment portfolio had a weighted average interest rate of 11.01% and an average mortgage investment of $1.9m at December 31, 2018.

Business Objective

The investment objective of the Trust is to invest in real estate investments in Canada and the United States (subject to the applicable investment objectives and restrictions of the Trust) as follows: (a) interest-bearing loans secured by variously ranking charges in real property; (b) loans comprising a base interest rate, various ranking security charges and a participation in profits; (c) loans secured with variously ranking charges by a developer's interest in the entity which is developing the real estate; (d) registered and/or unregistered real property interests through an indirect unsecured interest in real property; and (e) joint ventures which may also involve registered and/or unregistered real property interests and loan combinations to generate a fixed return for the Trust's unitholders.

The Trust seeks to achieve this objective through prudent investments to qualified real estate investors and developers, focusing primarily on short-term bridge financing needs not currently serviced by traditional real estate lenders.

Current Business Environment

The United States

U.S. Economy:

Both consumer and business confidence remain at high levels, driven by momentum from a strong U.S. economy. The U.S. economy experienced solid growth, as measured by 3.4% annualized growth in third-quarter of 2018 gross domestic product ("GDP"). The unemployment rate in the United States stayed at all-time lows through the quarter (3.7% in October and November), reflecting a U.S. economy operating at full capacity utilization.

The U.S. Federal Reserve Board ("Fed") kept its policy interest rate unchanged in November, but increased the target range to 2.25% to 2.50% in December based on the overall strength of the economy. As U.S. markets are subject to geopolitical risks and tighter conditions due to ongoing issues such as the U.S.-China trade dispute and Brexit, economic conditions are tighter and a pause by the Fed would not be unexpected. The renegotiation of the NAFTA, now the USMCA, provided some relief for investors.

Overall, we believe the U.S. economy is strong enough to sustain measured rate hikes given that underlying economic underpinnings remain robust. However, a pause and reassessment by the Fed will be supportive of the real estate sector. Supply of capital remains at all-time highs and the fundamentals for the U.S. real estate market continue to be strong. While geopolitical concerns and inflation levels are risks to watch for, we anticipate the real estate market will continue to fare well in the year ahead and will play an important role complementing and diversifying traditional asset classes.

Real Estate Market:

As a result of early indications pointing to a slowing U.S. economy in the last quarter of 2018, the Fed has signaled that it will be patient about future interest rate moves. The prospect of stabilized interest rates may help real estate affordability and growth across many U.S. markets. This growth potential is particularly important for single-family lot developments in the U.S., which are destined for home builders and, ultimately, home purchasers in strategic markets for Trez.

The effectiveness of Trez' market strategy is reflected in its expansion outside of Texas into the Southern U.S., Florida and the Carolinas. These target regions are home to 'right-to-work states,' which tend to maintain low sales and corporate tax environments. As a result, these markets have been projected to generate higher relative job growth and immigration levels over many years.

Trez continues to focus primarily on major metropolitan centres and the affordable housing segment, with projects targeted at first-time or move-up home buyers. Higher relative immigration within urban centres has led to strong demographic demand, greater stability and less impact due to market cyclicality.

2018 saw strong transaction levels and we anticipate seeing good investment volumes in 2019. In particular, the affordable housing segment has experienced relative stability in both volumes and values as the cost of home ownership remains restrictive. Overall, this is supportive of Trez' diversified portfolio and enhances our ability to deliver secure, risk-adjusted yield for our investors.

Canada

Canadian Economy:

Canada led the G7 in GDP growth over the past decade and continues to enjoy a very fertile climate for commercial real estate investing, backed by strong fundamentals. The strength of the Canadian economy was supported by continued low levels of unemployment of under 6.0%. While GDP growth remained strong, it ended down 0.1% in September – its first move lower after seven consecutive months of growth. The pace of growth slowed due to a lower rate of business investment and a slowdown in household spending.

During the fourth quarter, the Bank of Canada ("BoC") adopted a more dovish tone and left its benchmark rate unchanged at 1.75% in December, signalling a reassessment of future rate increases. Having raised its benchmark rate gradually over the course of the year, the BoC indicated that the timing of future hikes would be contingent upon key variables such as the duration of the oil price slump, the resolution of trade tensions between the United States and China, and renewed levels of business investment.

The renegotiation of the North American Free Trade Agreement ("NAFTA"), now the U.S.-Mexico-Canada Agreement ("USMCA"), provided economic relief for Canadian investors due to the impacts of tariffs on trade. The signing of USMCA will likely be supportive of renewed appetite in business investment – especially in light of capacity constraints.

The year ended on a more risk-neutral basis as investors began to look toward 2019 recognizing that the Canadian economy was operating at full capacity and that growth rates of the past year were not sustainable on a long-run basis. Therefore, we expect to see a degree of pullback in the Canadian economy at some point in the near future.

Overall, the recent pause in the pace of interest rate increases is supportive of the health of the real estate market. Capital remains plentiful across all sectors and we expect the real estate market to continue to perform well in 2019.

Real Estate Market:

In a fourth quarter marked by volatility in the financial markets, Canadian real estate yields remained stable. While market fundamentals and real estate income growth remained intact, the BoC nevertheless left its benchmark rate unchanged in December due to concerns over global trade and other economic uncertainties. Current inflation rates remain on target and a flattening yield curve may indicate lower near-term inflation rates. Both of these developments bode well for real estate investment.

The recent pause in interest rates augur well for real estate affordability as it creates a more favourable climate for Canadians looking to pay off debt, with a direct impact on residents in the larger metropolitan areas in which Trez is focused.

Residential vacancy rates continue to be near all-time lows in both Vancouver and Toronto, as new housing starts attempted to keep pace with continued robust levels of immigration and population growth. Already at record lows, Canadian multi-family cap rates continued to decline. The multi-family sector overall is supported by strong population growth, rising home ownership costs and a shortage of supply.

Investment volumes continued to exhibit strength, driven by increased institutional appetite for diversified real estate exposure. Commercial property investment reached a new record in 2018, exceeding the previous record of $36 billion in 2017, with ample supply of capital in both real estate debt and equities.

The strength in Canada’s real estate market is supported by finite supply and positive economic momentum against the backdrop of four-decade low unemployment rates. Trez’ access to preferential deal flow and continued focus on for sale and for rent multi-residential properties in larger urban centres with strong tenant profiles positions it favourably to capture growth opportunities in 2019.

Portfolio

A summary of our mortgage portfolio is presented below:

	December 31, 2018	**December 31, 2017**
Mortgage portfolio	$60,268,112	$33,625,600
Provision for mortgage losses	136,977	-
Accrued interest	538,241	338,229
Mortgage syndications	1,391,308	-
Investments in mortgages	$62,060,684	$33,963,829

As at December 31, 2018, the Trust’s mortgage portfolio was comprised of 32 mortgage investments (December 31, 2017 – 25). The provision for mortgage losses at December 31, 2018 was 136,977 (December 31, 2017- nil).

Asset Type

A summary of our mortgage portfolio by asset type is presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Residential	30	$59,435,643	98.6%	23	$31,145,169	92.6%
Industrial	2	832,469	1.4%	1	1,700,431	5.1%
Retail	-	-	-	1	780,000	2.3%
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

As at December 31, 2018, 98.6% of the Trust's mortgage portfolio was secured by residential projects. The Manager has significant expertise in underwriting residential development financings and has several long-standing relationships with developers with successful track records.

Security

A summary of our mortgage portfolio by priority of security is presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
First	31	$59,935,643	99.4%	23	$31,034,779	92.3%
Second	1	332,469	0.6%	1	1,700,431	5.1%
Third	-	-	-	1	890,390	2.6%
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

As at December 31, 2018, almost all of the allocation of mortgages is to first mortgages. The Trust's allocation to first mortgages has further increased with the addition of new first mortgages in the year ended December 31, 2018.

Loan-to-Value

Summaries of our mortgage portfolio by period, loan-to-value and security are presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
55% or less	2	$3,902,879	6.5%	6	$6,510,513	19.4%
56-60%	3	4,172,905	6.9%	2	2,298,433	6.9%
61-65%	7	8,827,613	14.6%	2	1,763,513	5.2%
66-70%	4	7,848,353	13.0%	3	3,874,739	11.5%
71-75%	5	13,019,796	21.7%	6	10,492,963	31.2%
76-80%	6	11,840,200	19.7%	4	4,474,206	13.3%
81-85%	3	9,603,572	15.9%	2	4,211,233	12.5%
86% or more	2	1,052,794	1.7%	-	-	-
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

The loan-to-value is determined at the time of underwriting of the loan and is based on the estimated project value after the loan proceeds have been expended on it. The loan-to-value estimate would only be adjusted at the time of a loan renewal or modification, when there is a change in loan structure such as a partial discharge on loans secured by multiple properties, or when the loan becomes challenged. As at December 31, 2018, the weighted average loan-to-value for the portfolio had increased slightly to 71.31% (December 31, 2017 – 67.14%).

Maturity

A summary of our mortgage portfolio by maturity date is presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Past due	-	-	-	-	-	-
2018	-	-	-	4	$3,982,247	11.8%
2019	15	$29,719,959	49.3%	16	21,309,649	63.4%
2020	10	17,819,275	29.6%	4	7,503,726	22.3%
2021	7	12,728,878	21.1%	1	829,978	2.5%
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

There were no mortgages that are past due or in default as at December 31, 2018 (December 31, 2017 - none).

Interest Rate

A summary of our mortgage portfolio by effective interest rate is presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
7.99% or less	2	$7,864,886	13.0%	-	-	-
8.00% - 8.99%	1	500,000	0.8%	-	-	-
9.00% – 9.99%	2	4,594,189	7.6%	1	$780,000	2.3%
10.00% – 10.99%	11	16,813,581	27.9%	4	4,304,940	12.8%
11.00% - 11.99%	2	6,013,240	10.0%	5	6,398,959	19.0%
12.00%+	14	24,482,216	40.7%	15	22,141,701	65.9%
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

The weighted average interest rate as at December 31, 2018 was 11.01% (December 31, 2017 - 12.37%). The decrease in rate is primarily the result of new loans funded with interest rates of 11.00% or lower in the year ended December 31, 2018.

Geographic Diversification

A summary of our mortgage portfolio by province and state is presented below:

	December 31, 2018			December 31, 2017		
	Number	**$ Amount**	**% of Portfolio**	**Number**	**$ Amount**	**% of Portfolio**
Texas	21	$37,502,582	62.2%	20	$29,233,599	86.9%
Arizona	1	1,730,359	2.9%	1	272,743	0.8%
Colorado	-	-	-	1	1,345,050	4.0%
Florida	3	5,346,781	8.9%	-	-	-
Oregon	1	2,863,830	4.8%	-	-	-
Washington	1	4,091,653	6.8%	-	-	-
British Columbia	2	2,563,357	4.2%	2	1,073,777	3.2%
Alberta	3	6,169,550	10.2%	1	1,700,431	5.1%
Total	32	$60,268,112	100.0%	25	$33,625,600	100.0%

As at December 31, 2018, 85.6% of the Trust's mortgage portfolio is located in USA (December 31, 2017 – 91.7%). The Manager has significant experience with operating in the United States and many of the Trust's Texas - based borrowers have long-standing relationships with the Manager.

Results from Operations

	Three months ended December 31		Year ended December 31	
	2018	**2017**	**2018**	**2017**
Revenue	1,578,712	1,030,099	5,315,965	2,989,601
Income from operations	1,307,576	972,257	4,706,216	2,873,322
Financing costs:				
Amortization of deferred financing costs	(9,006)	(5,775)	(21,810)	(23,150)
Distributions to holders of redeemable units (Series A, C, and D)	(1,003,762)	(603,293)	(3,441,890)	(1,775,030)
Distribution to holders of subordinated trust units (Series B)	(461,298)	(367,319)	(1,453,443)	(986,043)

Revenue

Revenue increased by $0.5m and $2.3m during the three months and year ended December 31, 2018 compared to the same periods of 2017. This was mostly as a result of an increase in investments in mortgages of $26.6 million from 2017 as a result of the increase of available capital from proceeds of additional units issued in the year ended December 31, 2018.

Financing Costs

For the three months and year ended December 31, 2018, the Trust's charges relating to the credit facility were $9,006 and $21,810 respectively (2017 - $5,775 and $23,150).

For the three months and year ended December 31, 2018, the fund recorded distributions of $1,003,762 and $3,441,890 respectively (2017 - $603,293 and $1,775,030) to Series A, C, and D unitholders. The Series A, C, and D unitholders are entitled to a fixed return. The increase in distribution is the result of additional units issued in the year ended December 31, 2018 and units issued in the prior periods being outstanding for a longer period of time.

Distribution to Subordinated trust units (Series B)

The Trust will make a distribution to the Series B Unitholders on a quarterly basis. For the three months and year ended December 31, 2018, the fund recorded distributions of $461,298 and $1,453,443 respectively (2017 - $367,319 and $986,043). The increase in distribution to Series B unitholders over the prior periods is in line with increased comprehensive income for the period.

Financial Condition

Liquidity and Capital Resources

The liquidity needs of the Trust arise from working capital requirements, debt servicing with respect to the revolving credit facility, distributions to unitholders, future mortgage investment funding requirements, and future mandatory redemptions.

Cash flows from the Trust's mortgage investments, promissory note receivable, available funding under the Trust's revolving credit facility and cash-on-hand represent the primary sources of liquidity. Cash flow from operations is dependent upon interest payments, principal repayments from borrowers, and funding of existing and new loans.

Payment of quarterly distributions and amounts due on redemption or termination of the Trust may, in certain circumstances, be funded by the Subordinated Trust Units (Manager's Support Investment) as described in the Related Party Transactions section below.

The capital requirements of the Trust parallel with the 45-month maturity schedule and notional amounts of each series (other than the Series B units). The Trust will receive cash from maturing investments in order to make scheduled payments on the mandatory redemption of units that are listed below. Within the next 12 months, the Trust will receive $29.7m from maturing loans, and no mandatory redemption of units are required to be made.

The maturity schedule as at December 31, 2018:

	Less than 12 months	12 – 24 months	More than 24 months
Series A redeemable units	$ -	$ 10,534,770	$ -
Series C redeemable units	-	11,445,000	21,075,360
Series D redeemable units	-	-	14,888,070
Series B subordinated units	-	1,046,756	1,613,119
	$ -	$ 23,026,526	$ 37,576,549

Credit Facility

The Trust has a credit facility with a Canadian bank providing for borrowings up to $2,000,000 by way of a demand revolving loan. The amount available under the credit facility is further limited by a margin requirement and is also limited by the Trusts eligible Canadian loan portfolio. As at December 31, 2018, the borrowing available under the credit facility was $10,000 (December 31, 2017 – $20,000). Interest is calculated at the bank's prime rate plus 1.1% per annum and a standby fee is calculated on the undrawn portion of the facility at 0.35% per annum. As at December 31, 2018, no amounts have been drawn down on the credit facility (December 31, 2017 – nil).

The credit facility has financial tests and other covenants with which the Trust must comply. The Trust shall not, without the prior written consent of the Bank:

(a) permit its ratio of bank debt to EBITDA at any time to exceed 2.50 to 1.00;

(b) permit its ratio of bank debt to tangible net worth at any time to exceed 0.65 to 1.00; or

(c) permit its tangible net worth at any time to be less than $20,000,000.

These covenants place restrictions on, among other things, the ability of the Trust to incur additional indebtedness, to pay distribution to Series B unitholders, and to sell or otherwise dispose of assets. During the three months and year ended December 31, 2018, the Trust was in compliance with all such covenants.

The credit facility is collateralized by a general security agreement creating a first priority security interest in all personal property of the Trust and a floating charge over all of the Trust's real property, and an assignment of the Trust's beneficial interest in all mortgages held. During the three months and year ended December 31, 2018, the financing costs associated with the credit facility were $9,006 and $21,810 respectively (2017 - $5,775 and $23,150).

Trust Units

Series A, C, and D: Redeemable Units

The Trust has authorized the issuance of an unlimited number of Redeemable Units. Redeemable Units may, from time to time, be issued in one or more series in such number and with such fixed return and term as the Manager may determine.

The Redeemable Units rank equally as to the payment of their respective fixed returns. The Series A, C, and D Redeemable Units have a term of 45 months from the date of issue, at which time they are to be redeemed at a price equal to the subscription price of $10 per unit. The Redeemable Units have no residual equity interest in the Trust, are redeemable at Unitholders' option and, accordingly, are classified as financial liabilities.

Redeemable Units are redeemable at the demand of the Unitholders on thirty days' notice in increments not less than $5,000, at a redemption price equal to 95% of the subscription price paid. Any gains on redemption will be recognized in the statement of comprehensive income in the period during which the redemptions take place. Such gains will form part of Net Revenue and therefore are available to pay the aggregate fixed return during the period in which the redemptions take place.

As at December 31, 2018, there were 1,053,477 Series A units, 3,252,036 Series C units, and 1,488,807 Series D units outstanding respectively.

Series B: Subordinated Trust Units

As at December 31, 2018, the Manager has met its commitment to invest $2,897,169 in the Trust (the "Manager's Support Investment") (December 31, 2017 - $1,832,126) and in return received 289,717 Series B units (December 31, 2017 – 183,213). Series B units are subordinated to payment of the fixed return on all other units, the amount repayable on redemption or retraction of all other units and other liabilities of the trust. In order to meet any shortfall in the monies otherwise payable quarterly to unitholders as a distribution, or in respect of payments due to unitholders (other than Series B Unitholders) on retraction, and or redemption of Units (other than Series B units) or termination of the Trust, the Manager has agreed that Series B Units in the following aggregate subscription amounts will be subscribed for by the Manager at all times during the term of the Trust:

(a) until the Trust has issued units other than the Series B Units for an aggregate subscription price of $5,000,000, 10% of such aggregate subscription price, up to an aggregate amount of $500,000;

(b) upon the Trust having issued units (other than the Series B Units) for an aggregate subscription price of $5,000,000 until the Trust has issued units (other than Series B Units) for an aggregate subscription Price of $10,000,000, $500,000 (no additional Series B Units will be subscribed for by the Manager); and

(c) upon and after the Trust having issued units (other than the Series B Units) for an aggregate subscription price up to $10,000,000, 5% of such aggregate subscription price.

The Series B Units are non-voting, have no Fixed Return and an indefinite term, except as Series A, C and D are redeemed. They are subordinated to payment of the Fixed Return for all other Units, the amount repayable on Redemption or Retraction of all other Units and all other liabilities of the Trust.

The Trust will make a distribution to the Series B Unitholder on a quarterly basis and the amount is an estimate of the expected annual distribution based on the year to date financial results of the Trust. As at December 31, 2018, the Trust accrued $461,298 distribution payable on Series B units (December 31, 2017 - $367,319).

Distributions

For the three months and year ended December 31, 2018, the Trust had recognized distributions to Series A, C, and D unitholders totaling $1,003,762 and $3,441,890 respectively (2017 - $603,293 and $1,775,030). As at December 31, 2018, distributions payable to Series A, C, and D unitholders totaled $1,003,762 (December 31, 2017 - $603,293). The increase in distributions over the prior period is in line with the increase in redeemable units and the units being outstanding for a longer period of time.

The Trust recognized $461,298 and $1,453,443 (2017 - $367,319 and $986,043) distributions to the Series B Unitholder for the three months and year ended December 31, 2018 respectively.

Statement of Cash Flows

The statement of cash flows for the three months and year ended December 31, 2018 and December 31, 2017 are as follows:

	Three months ended December 31		Year ended December 31	
	2018	**2017**	**2018**	**2017**
Net change in cash related to				
Operating	$990,555	$(366,111)	$2,325,902	$(143,167)
Investing	(2,038,140)	(3,997,754)	(20,786,553)	(18,866,731)
Financing	2,271,799	6,825,730	17,960,116	20,922,035
Effect of foreign exchange on cash and cash equivalents	(1,638,704)	(64,404)	(2,409,743)	501,604
Increase (decrease) in cash	**$(414,490)**	**$2,397,461**	**$(2,910,278)**	**$2,413,741**

The increase (decrease) in net cash flow for the periods was mainly due to the following factors:

- Operating – cash from operating activities increased by $1.4m and $2.5m during the three months and year ended December 31, 2018 respectively compared to the same periods of 2017. Cash flows used in operations decreased due to higher interest proceeds received due to an increase in investments in mortgages.
- Investing – cash flows from investing activities increased by $2.0m for the three months ended December 31, 2018 compared to the same period of 2017 due to a change in amounts required as margin deposits on foreign currency swap contracts. Cash flows from investing activities decreased $1.9m during the year ended December 31, 2018 due to an increase in fundings of $43.9 million which was offset by an increase in principal repayments from investments in mortgages of $42.2 million.
- Financing – cash flows from financing activities decreased by $4.6m and $3.0m during the three months and year ended December 31, 2018 respectively compared to the same periods of 2017. Cash flow from financing activities includes proceeds from issuance of Series A, C, and D redeemable units and Series B subordinated units net off by distributions paid to holders of Series A, C, and D redeemable units and Series B subordinated units and payments on redemption of the units. The Trust raised $3.4m and $21.6m through issuance of Series C and D redeemable units during the three months and year ended December 31, 2018. During the same periods in 2017 the proceeds received were $7.1m and $21.9m. These amounts were offset by an increase in distributions of $0.4 million and $1.7m to Series A, C and D unitholders for the three months and year ended December 31, 2018. Also there was an increase of $0.1m and $0.5 million in distributions paid to Series B.
- Effect of foreign exchange on cash and cash equivalents – The foreign currency cash is translated using the exchange rate as at the period end. Any exchange differences arising on retranslation will increase or decrease these balances, but do not give rise to cash flows. The effect of these exchange differences is presented at the foot of the Statement of Cash Flows, in order to reconcile cash at the beginning and end of the period. The effects of foreign exchange on cash and cash equivalents for the three months and year ended December 31, 2018 were a reduction of $1.6m and $2.4m, respectively.

Quarterly Financial Information

The following is a quarterly summary of the Trust's for the eight most recently completed quarters:

	Three months ended December 31, 2018	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended December 31, 2017	Three months ended September 30, 2017	Three months ended June 30, 2017	Three months ended March 31, 2017
Revenue	$1,578,712	$1,371,836	$1,270,986	$1,094,431	$1,030,099	$758,681	$691,932	$508,889
Foreign exchange	(233,784)	(93,864)	(183,855)	(60,895)	(57,842)	(59,422)	3,430	(2,447)
Income from operations	1,307,576	1,277,972	1,087,131	1,033,536	972,257	699,259	695,362	506,442
Financing costs								
Distributions to unitholders of Series A, C, and D redeemable units	1,003,762	946,447	792,455	699,088	603,293	474,979	395,470	301,505
Amortization of deferred financing costs	9,006	4,285	4,249	4,270	5,775	4,629	7,299	5,447
Income (loss) for the period	294,670	327,240	290,427	330,178	363,406	219,651	292,593	199,490
Other comprehensive income (loss)	166,627	(49,671)	40,259	53,713	3,913	(45,629)	(37,093)	(10,288)
Comprehensive income (loss) for the period	$461,298	$277,569	$330,686	$383,891	$367,319	$174,022	$255,500	$189,202

Q4 2018 vs. Q4 2017

Revenue of $1.6m and income from operations of $1.3m were up 53% and 34% respectively. Higher revenue and income from operations were primarily driven by 83% increase in investments in mortgages from the same period last year. The Trust has received $21.5m and $1.1m through issuance of Series C and D redeemable units and Series B subordinated units since December 31, 2017. The proceeds from new units issuance were used to fund additional investments in mortgages.

Distributions to unitholders of Series A, C, and D redeemable units of $1.0m were up 66% from the three months ended December 31, 2017. The Series A, C, and D units are entitled to a fixed return of 7.1%, 7.2%, and 7.5% per annum respectively. The increase is consistent with additional units issued since December 31, 2017.

Q4 2018 vs. Q3 2018

Revenue and income from operations were up 15% and 2% respectively. The increase is mainly due to the contribution from the increased interest on investments in mortgages. Weighted average interest rates of the investments in mortgages are comparable to the third quarter of the year.

Distributions to unitholders of Series A, C, and D redeemable units of $1.0m were up 6% from last quarter. The increase is the result of distribution to the $3.4m units issued in the three months ended December 31, 2018 and longer outstanding period of the $4.3m units issued in the last quarter.

Related Party Transactions and Commitments

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

- The Trust's rights are as outlined in the Trust Agreement and in a Mortgage Participation and Servicing Agreement with the Mortgage Broker. The Trustee will hold the Trust's interest in the mortgages and underlying security.
- Pursuant to these agreements, the Mortgage Broker agrees to administer and service the mortgages on behalf of the Trustee and other investees. The Mortgage Broker acts as the Trust's loan originator, underwriter, servicer and syndicator.
- The Mortgage Broker performs certain duties including registering title to the mortgages, arranging for title searches, and holding all title papers and other security documentation related to the mortgages.
- The Mortgage Broker agrees to deliver cash payments for interest and principal to the Trustee.

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

During the third quarter, the Trust purchased a mortgage from a related fund at a risk-adjusted discount of $700,000. The cost and carrying value of the restructured performing mortgage is $5,337,081 as at December 31, 2018.

During the three months and year ended December 31, 2018, the Trust purchased investments in mortgages of $4.1m and $20.2m (2017 – nil and $0.8m) and sold investments in mortgages of $2.2m and $9.9m respectively (2017 - nil and $3.1m) to entities under common management.

As at December 31, 2018, amounts receivable of $9,291 (December 31, 2017 – $22,942) are due from the Manager. The receivable is composed of certain reimbursable expenses.

On May 11, 2018, the Trust entered into a promissory note with an entity under common management. The promissory note was unsecured, at interest rate of 10.0% per annum, dominated in US$, and was to mature on November 11, 2018. As at December 31, 2018, the Trust had received full repayment for principal and accrued interest. Total of $140,038 interest income was recognized and received by the Trust.

Critical Accounting Estimates And Implementation of New Accounting Policy (IFRS 9)

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

Effective January 1, 2018 the Trust adopted IFRS 9 Financial Instruments. IFRS 9 replaces the 'incurred loss' model in IAS 39 under which mortgage investments were only considered impaired if objective evidence indicated that one or more loss events had occurred that may have a negative effect on cash flows. Under an 'expected credit loss' (ECL) model. The Trust is required to measure expected credit losses on each balance sheet date according to a three stage expected credit loss impairment model:

Performing financial assets

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

Impaired financial assets

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

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

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

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

Judgement is required in making assumptions and estimations when calculating the allowance for credit losses, including movements between the three stages and the application of forward looking information.

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

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

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

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

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

The allowance for credit losses on transition to IFRS9 recorded in the Audited Statement of Financial Position amounted to $136,977. Additions to the expected credit losses during the year were $37,352. For further details on the implementation and impact of IFRS 9, please refer to Note 3 of our Audited Annual Financial Statements.