

Management's Discussion and Analysis

# Timbercreek Financial

For the three months and six months ended June 30, 2017



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For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## FORWARD-LOOKING STATEMENTS

### Forward-looking statement advisory

The terms, the "Company", "we", "us" and "our" in the following Management Discussion & Analysis ("MD&A") refer to Timbercreek Financial Corp. (the "Company" or "Timbercreek Financial"). 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 Company 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 intended by the manager, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages of a quality that will generate returns that meet and/or exceed the Company'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 Company may invest in and the risks detailed from time to time in the Company's public disclosures. For more information on risks, please refer to the "Risks and Uncertainties" section in this MD&A, and the "Risk Factors" section of our Annual Information Form ("AIF"), which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com).

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 Company, 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 Company and Timbercreek Asset Management Inc. (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.

This MD&A is dated August 9, 2017. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at [www.timbercreekfinancial.com](http://www.timbercreekfinancial.com). Additional information about the Company, including its AIF, can be found at [www.sedar.com](http://www.sedar.com).

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## BUSINESS OVERVIEW

Timbercreek Financial Corp, previously known as Timbercreek Mortgage Investment Corporation ("TMIC"), is a leading non-bank lender providing financing solutions to qualified real estate prospective borrowers who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement for real estate investors that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term loans to bridge a period (generally one to five years) during which they conduct property repairs, redevelop the property or purchase another investment. These short-term "bridge" loans are typically repaid with traditional bank mortgages (lower cost and longer-term debt) once the transitional period is over or a restructuring is complete or from proceeds generated on the sale of assets.

Timbercreek Financial, through its Manager, has established preferred lender status with many active real estate investors by providing prompt response to requests made by borrowers to facilitate quick execution on investment opportunities and by providing market loan terms that combine the flexibility required by borrowers in order to maximize their efficiencies in executing on opportunities and realizing on profits. Timbercreek Financial works with borrowers throughout the terms of their loans to ensure that their capital requirements are met and, if requested, considers modifications of or extensions to the terms of their loans to accommodate additional opportunities that may arise or changes that may occur.

The Company is, and intends to continue to be, qualified as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada) ("ITA").

## BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three months and six months ended June 30, 2017. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months and six months ended June 30, 2017 and 2016, and the audited consolidated financial statements for the years ended December 31, 2016 and 2015, which are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standard 34 as issued by the International Accounting Standards Board.

The functional and reporting currency of the Company is Canadian dollars and unless otherwise specified, all amounts in this MD&A are in thousands of Canadian dollars, except per share and other non-financial data.

Copies of these documents have been filed electronically with securities regulators in Canada through SEDAR and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## NON-IFRS MEASURES

The Company prepares and releases unaudited condensed consolidated interim financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the "non-IFRS measures"). These non-IFRS measures are further described below. The Company has presented such non-IFRS measures because the Manager believes they are relevant measures of the Company's ability to earn and distribute cash dividends to shareholders and to evaluate its performance.

These non-IFRS measures should not be construed as alternatives to total net income and comprehensive income or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

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- Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date;
- Other investments – represents total other investment, before adjustments for interest receivable and unamortized lender fees as at the reporting date;
- Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period;
- Weighted average loan-to-value – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an “as completed” basis;
- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period;
- Leverage – represents total of gross convertible debentures and the total credit facility balance divided by total assets less mortgage syndication liabilities;
- Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period;
- Weighted average lender fees – represents the cash lender fees received on individual investments during the stated period, expressed as a percentage of the Company's advances on those investments. If the entire lender fee is received but the investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment;
- Weighted average lender fees on mortgage investments – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment;
- Net interest income – represents interest income, fee income and other income excluding any income, fee income and other income from mortgage syndications;
- Income from operations – represents income before non-operating items such as net operating gain (loss) from foreclosed properties held for sale (“FPHFS”), fair value adjustments on FPHFS, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain and financing costs;
- Adjusted total net income and comprehensive income – represents total net income and comprehensive income for the stated period excluding termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain;
- Adjusted earnings per share – represents the total adjusted total net income and comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company's ability to generate recurring cash flows for dividends by removing the effect of lender fees, amortization, accretion, unrealized fair value adjustments, provisions for mortgage investments loss,

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termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain, and unrealized gain or loss from total net income and comprehensive income;

- Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period;
- Expense ratio – represents total expenses excluding financing costs, net operating (gain) loss on FPHFS, fair value adjustment on FPHFS, provision for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- Fixed expense ratio – represents expenses as calculated under expense ratio, less performance fees, for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities; and
- Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.
- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

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## RECENT DEVELOPMENTS AND OUTLOOK

Q2 2017 was a strong quarter for the Company as we delivered solid financial performance and continued to show progress on the objectives we set with the Amalgamation last year. We have enhanced our profile in the capital markets, diversified our capital base, reduced risk at the portfolio level by increasing our exposure to first mortgages while maintaining our focus on income producing real estate and have a more efficient cost structure that has eliminated certain expenses and improved operating margins.

In Q2 2017, we continued to increase our capital base to support the demand for our financing solutions. The limit on our credit facility was raised by \$50.0 million to \$400 million, and we accessed a portion of this additional capital to fund new investments in the quarter. In addition, we closed on an unsecured convertible debenture offering in June 2017 for net proceeds of \$42.8 million. The debentures mature on June 30, 2024 and pay interest at a rate of 5.3% per year. As with our previous debenture offerings, this capital allows us to broaden the types of investments in our portfolio to include certain higher-yielding investments such as collateralized loans, participating mortgages and marketable securities. Leveraging the full breadth of the Manager's origination capabilities and underwriting standards, these investments generate accretive returns and increase our portfolio diversification. Other investments increased by \$37.3 million over Q1 2017 to \$62.0 million at quarter end, representing approximately 6% of the total assets of the portfolio, compared with 1.5% at in Q1 2017. These other investments in aggregate will remain less than 10% of the portfolio.

Subsequent to quarter end, we announced that Cameron Goodnough, President of the Company, will assume the position of Chief Executive Officer (CEO) effective January 1, 2018. Cameron will succeed Andrew Jones, who will retire from his position as the CEO effective December 31, 2017. Andrew will continue in his lead origination role with Timbercreek Asset Management, which is responsible for originating and servicing the commercial real estate mortgages owned by the Company, and will also remain as a director of Timbercreek Financial. They will work together closely over the next six months to ensure a smooth and orderly transition.

## PORTFOLIO ACTIVITY

Transaction activity remained robust in the second quarter, and the net value of our net commercial mortgage portfolio, excluding syndications, increased by \$76.0 million over Q1 2017 to approximately \$1.1 billion at the end of Q2 2017.

We funded 18 new mortgage investments in the quarter totaling \$163.1 million and had additional advances of \$28.3 million. Portfolio turnover was 11.1% in Q2 2017, compared to 15.5% in Q2 2016. Our draw on the credit facility stood at \$363.4 million at the end of Q2 2017 compared to \$294.9 million at the end of Q1 2017 and \$299.0 million at the end of Q4 2016.

Importantly and consistent with our strategy upon completion of the amalgamation, we are executing our strategy to be the lender of choice in the industry. We believe Timbercreek Financial offers a superior risk profile (based on the types of investments we make) while still being able to generate an attractive yield for our investors.

Our risk management is achieved through a variety of strategies, including a focus on lending against income-producing assets. At quarter end, 90.4% of the mortgage investments were secured by properties with existing rental income, up from Q1 2017. Approximately 50% of the portfolio at quarter end was secured by multi-residential real estate (apartment buildings), which is a stable asset class with predictable cash-flow streams.

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Our exposure to first mortgages, which are lower risk, increased to 91.9%, which was also up from Q1 2017, and well ahead of our internal target of 75%. Our weighted average loan-to-value (LTV) ratio was 65.6%, which is below our internal target of 70%. Our weighted average interest rate for the period during Q2 2017 was 7.2%. Higher rates can be obtained by investing in single-family housing, condominiums and construction, but our focus is primarily on income-producing, lower-risk segments of the market such as apartments.

The portfolio remains heavily weighted towards Canada's most populous provinces, with approximately 81% of the portfolio is invested in Ontario, Quebec and British Columbia. Urban markets generally experience better real estate liquidity in periods of uncertainty and thus offer a better risk profile. The percentage of assets invested in Alberta increased slightly in Q2 2017 to 10.4% from 9.1% at the end of Q1 2017. As discussed in recent quarters, we are seeing more quality investment opportunities in Alberta, although we continue to exercise caution given the economic conditions in the province.

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## FINANCIAL HIGHLIGHTS

### FINANCIAL POSITION

As at	June 30, 2017	June 30, 2016	December 31, 2016
<b>KEY FINANCIAL POSITION INFORMATION</b>			
Mortgage investments, including mortgage syndications	\$ 1,681,087	\$ 1,391,201	\$ 1,549,849
Other investments	\$ 64,808	\$ –	\$ 9,828
Total assets	\$ 1,760,669	\$ 1,417,651	\$ 1,573,970
Credit facility balance	\$ 363,590	\$ 235,000	\$ 300,580
Convertible debentures	\$ 162,863	\$ 33,015	\$ 76,757
Total liabilities	\$ 1,110,311	\$ 771,380	\$ 927,298
<b>CAPITAL STRUCTURE</b>			
Shareholders' equity	\$ 650,358	\$ 646,271	\$ 646,672
Convertible debentures, par	\$ 171,300	\$ 34,500	\$ 80,300
Credit facility limit	\$ 400,000	\$ 350,000	\$ 350,000
Leverage <sup>1</sup>	45.0%	29.2%	37.0%
<b>COMMON SHARE INFORMATION</b>			
Number of common shares outstanding	74,051,236	73,858,499	73,858,499
Closing trading price	\$ 9.37	\$ 8.34	\$ 8.72
Market capitalization	\$ 693,860	\$ 615,980	\$ 644,046

<sup>1</sup> Refer to non-IFRS measures section, where applicable.

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## Operating Results

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
Net interest income <sup>1</sup>	\$ 21,448	\$ 10,922	\$ 42,214	\$ 21,720	\$ 61,422
Income from operations <sup>1</sup>	\$ 18,357	\$ 8,504	\$ 35,901	\$ 16,867	\$ 51,231
Total net income and comprehensive income	\$ 13,135	\$ 13,342	\$ 26,081	\$ 20,518	\$ 45,999
Earnings per share (basic)	\$ 0.18	\$ 0.33	\$ 0.35	\$ 0.50	\$ 0.80
Earnings per share (diluted)	\$ 0.18	\$ 0.32	\$ 0.35	\$ 0.50	\$ 0.80
Adjusted total net income and comprehensive income <sup>1</sup>	\$ 13,135	\$ 7,199	\$ 26,081	\$ 14,375	\$ 39,940
Adjusted earnings per share (basic and diluted) <sup>1</sup>	\$ 0.18	\$ 0.18	\$ 0.35	\$ 0.35	\$ 0.70
Dividends to shareholders	\$ 12,656	\$ 7,294	\$ 25,290	\$ 14,587	\$ 39,893
Dividends per common share	\$ 0.171	\$ 0.180	\$ 0.342	\$ 0.360	\$ 0.702
Payout ratio on earnings per share <sup>1</sup>	96.3%	54.7%	97.0%	71.1%	86.7%
Distributable income <sup>1</sup>	\$ 14,080	\$ 7,606	\$ 27,491	\$ 14,860	\$ 42,636
Distributable income per share <sup>1</sup>	\$ 0.19	\$ 0.19	\$ 0.37	\$ 0.37	\$ 0.74
Payout ratio on distributable income <sup>1</sup>	89.9%	95.9%	92.0%	98.2%	93.5%

<sup>1</sup> Refer to non-IFRS measures section, where applicable.

## ACQUISITION OF TSMIC

On June 30, 2016 (the "Effective Date"), TMIC amalgamated with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") to form a single entity called Timbercreek Financial Corp. under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TF".

On the Effective Date, TMIC and TSMIC amalgamated to form the Company under the laws of the Province of Ontario by Articles of Arrangement (the "Amalgamation"). As a result of the Amalgamation, the Company has become a leading non-bank commercial real estate lender. The synergies and scale of the Company will create a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

The Amalgamation resulted in each TMIC shareholder receiving one share of the Company for each TMIC share held and each TSMIC shareholder receiving 1.035 shares of the Company for each TSMIC share held.

For financial reporting purposes, the Amalgamation is considered a business combination in accordance with International Financial Reporting Standards 3 – Business Combinations ("IFRS 3") with TMIC considered as the "acquirer" and TSMIC as the "acquiree". Accordingly, on the Effective Date, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC. The total purchase price paid by the TMIC consisted of 32,551,941 common shares of TMIC (representing 31,451,154 TSMIC shares at an exchange ratio of 1:1.035) and were valued at \$8.34 per share, representing TMIC's closing share price as at June 29, 2016. Under IFRS 3, the share consideration is required to be measured based on the trading price of TMIC's common shares on the closing date of the business combination; whereas, the actual consideration pursuant to the terms of the Amalgamation was based on the adjusted book value per share of TMIC and TSMIC as at March 31, 2016.

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The Company recorded the identifiable assets and liabilities of TSMIC at fair value resulting in the recognition of a bargain purchase gain of \$15.2 million, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC at \$8.34 per TMIC share as at the June 29, 2016 closing share price.

The fair value of the acquired identifiable net assets and bargain purchase gain are as follows:

	<b>Total</b>
<b>Fair value of net assets acquired</b>	
Mortgage investments, including mortgage syndications	\$ 545,112
Other assets	606
Accounts payable and accrued expenses	(1,303)
Dividends payable	(1,573)
Due to Manager	(441)
Mortgage funding holdbacks	(15)
Prepaid mortgage interest	(504)
Credit facility	(181,650)
Mortgage syndication liabilities	(73,595)
<b>Total net assets acquired</b>	<b>\$ 286,637</b>
<b>Consideration transferred</b>	
32,551,941 common shares issued	\$ 271,483
<b>Excess of net assets acquired over consideration transferred (bargain purchase gain)</b>	<b>\$ 15,154</b>

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility
- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. The new management agreement has a management fee that equals to 0.85% per annum and a servicing fee equal to 0.10% per annum of the amount of any senior tranche of a mortgage asset that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion. The new management agreement does not have any performance fees and has a significantly lower management fee when compared with the old agreement. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of \$7.4 million which was settled in cash of \$0.9 million for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of \$1.2 million accrued for the period prior to the Amalgamation is payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016
- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of expenses such as filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. TMIC's share of transaction costs relating to the Amalgamation was \$1.6 million and was accrued by TMIC prior to the Amalgamation

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Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's net interest income for 2016 would have been approximately \$76.0 million and the net income for the year would have been \$53.7 million, inclusive of \$4.8 million of net non-recurring gains and costs related to the Amalgamation.

As part of the Amalgamation, all mortgage investments held by TSMIC were acquired by TMIC. As the TMIC and TSMIC portfolios are not maintained separately and had various co-invested mortgage investments, it is impracticable for TF to disclose the income and expenses of TSMIC since the acquisition date included in the unaudited condensed consolidated interim statement of net income and comprehensive income.

## For the three months ended June 30, 2017 ("Q2 2017") and June 30, 2016 ("Q2 2016")

- The Company funded 18 new net mortgage investments (Q2 2016 – 17) totalling \$163.1 million (Q2 2016 – \$70.2 million), made additional advances on existing mortgage investments totalling \$28.3 million (Q2 2016 – \$7.1 million) and received full repayments on 20 mortgage investments (Q2 2016 – 11) and partial repayments totalling \$115.4 million (Q2 2016 – \$88.9 million). As a result, the net mortgage investment portfolio as at June 30, 2017 has increased by \$76.0 million to \$1,098.1 million (March 31, 2017 – \$1,022.1 million), or 7.4% from March 31, 2017.
- The Company funded 5 new other investments (Q2 2016 – nil) totalling \$37.1 million (Q2 2016 – nil), and made additional advances on existing other investments \$1.0 million (Q2 2016 – nil) and received 1 (Q2 2016 – nil) partial repayment of \$1.0 million. As a result, the net other investments portfolio as at June 30, 2017 has increased by \$37.3 million to \$62.0 million (March 31, 2017 – \$24.9 million), or 148.8% from March 31, 2017.
- The Company invested \$2.9 million (Q2 2016 – nil) in marketable securities.
- Non-refundable cash lender fees received was \$2.3 million (Q2 2016 – \$1.2 million) or a weighted average lender fee of 0.9% (Q2 2016 – 1.5%), inclusive of other investments, which is in-line with management's expectations.
- Net interest income earned was \$21.4 million (Q2 2016 – \$10.9 million), an increase of \$10.5 million, or 96.4% from Q2 2016. The increase is mainly attributable to the Amalgamation as Q2 2017 is the fourth full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$18.3 million (Q2 2016 – \$8.5 million), an increase of \$9.8 million or 115.9% from Q2 2016. The increase is mainly attributable to the Amalgamation as Q2 2017 is the fourth full quarter in operations reflects the results of the Amalgamation.
- The Company generated total net income and comprehensive income of \$13.1 million (Q2 2016 – \$13.3 million) or earnings per share \$0.18 basic and diluted (Q2 2016 – \$0.33 basic and \$0.32 diluted). The Company declared \$12.7 million in dividends (Q2 2016 – \$7.3 million) to common shareholders resulting in a payout ratio of 96.3% (Q2 2016 – 54.7%) on an earnings per share basis. During Q2 2016, the payout ratio was affected by one-time Amalgamation costs. Total dividends to common shareholders has increased as a direct result of the Amalgamation.
- The Company generated distributable income of \$14.1 million (Q2 2016 – \$7.6 million) or distributable income per share of \$0.19 (Q2 2016 – \$0.19) resulting in a payout ratio of 89.9% (Q2 2016 – 95.9%) on a distributable income basis.
- On June 13, 2017, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40.0 million plus additional \$5.0 million on June 27, 2017 from the over-allotment option and net proceeds of \$42.8 million. The unsecured convertible debentures will mature on June 30, 2024 and pay interest semi-annually on June 30 and December 31 at a rate of 5.30% per annum.

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- During Q2 2017, the Company increased the credit facility limit by \$50.0 million through the utilization of the accordion feature.
- During Q2 2017, the Company sold one of its foreclosed properties for a net loss of \$143.
- On July 17, 2017, the Board of Directors appointed Mr. Cameron Goodnough as its Chief Executive Officer effective January 1, 2018.

## For the six months ended June 30, 2017 ("YTD 2017") and June 30, 2016 ("YTD 2016")

- The Company funded 29 new net mortgage investments (YTD 2016 – 28) totalling \$240.0 million (YTD 2016 – \$106.4 million), made additional advances on existing mortgage investments totalling \$49.7 million (YTD 2016 – \$30.3 million) and received full repayments on 33 mortgage investments (YTD 2016 – 21) and partial repayments totalling \$191.6 million (YTD 2016 – \$147.3 million). As a result, the net mortgage investment portfolio as at June 30, 2017 has increased by \$98.1 million to \$1,098.1 million (December 31, 2016 – \$1,000.0 million), or 9.8% from December 31, 2016.
- The Company funded 7 new other investments (YTD 2016 – nil) totalling \$51.1 million (YTD 2016 – nil), made additional advances on existing other investments totalling \$2.0 million (YTD 2016 – nil) and received partial repayments totalling \$1.0 million (YTD 2016 – nil). As a result, the net other investments portfolio as at June 30, 2017 has increased by \$52.1 million to \$62.0 million (December 31, 2016 – \$9.9 million), or 526.3% from December 31, 2016.
- The Company invested \$2.9 million (Q2 2016 – nil) in marketable securities.
- Non-refundable cash lender fees received was \$3.6 million (YTD 2016 – \$2.1 million) or a weighted average lender fee of 0.9% (YTD 2016 – 1.8%), inclusive of other investments, which is in-line with management's expectations.
- Net interest income earned was \$42.2 million (YTD 2016 – \$21.7 million), an increase of \$20.5 million, or 94.5% from YTD 2016. The increase is mainly attributable to the Amalgamation as Q2 2017 is the fourth full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$35.9 million (YTD 2016 – \$16.9 million), an increase of \$19.0 million or 112.8% from YTD 2016. The increase is mainly attributable to the Amalgamation as Q2 2017 is the fourth full quarter in operations reflects the results of the Amalgamation.
- The Company generated total net income and comprehensive income of \$26.1 million (YTD 2016 – \$20.5 million) or earnings per share \$0.35 basic and diluted (YTD 2016 – \$0.50 basic and diluted). The Company declared \$25.3 million in dividends (YTD 2016 – \$14.6 million) to common shareholders resulting in a payout ratio of 97.0% (YTD 2016 – 71.1%) on an earnings per share basis. During YTD 2016, the payout ratio was adversely affected by one-time Amalgamation costs. Total dividends to common shareholders has increased as a direct result of the Amalgamation.
- The Company generated distributable income of \$27.5 million (YTD 2016 – \$14.9 million) or distributable income per share of \$0.37 (YTD 2016 – \$0.37) resulting in a payout ratio of 92.0% (YTD 2016 – 98.2%) on a distributable income basis.
- On February 7, 2017, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40.0 million plus additional \$6.0 million from the over-allotment option and net proceeds of \$43.7 million. The unsecured convertible debentures will mature on March 31, 2022 and pay interest semi-annually on March 31 and September 30 at a rate of 5.45% per annum.
- The Board of Directors appointed Cameron Goodnough as President of the Company, effective March 15, 2017.

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## Analysis of Financial Information for the Period

### Distributable income

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
Net income and comprehensive income	\$ 13,135	\$ 13,342	\$ 26,081	\$ 20,518	\$ 45,999
Less: amortization of lender fees	(1,922)	(1,055)	(3,656)	(2,092)	(5,720)
Add: lender fees received	2,283	1,189	3,642	2,122	5,905
Add: amortization of financing costs, credit facility	293	155	571	217	775
Add: amortization of financing costs, debentures	334	90	613	181	566
Add: accretion expense, debentures	24	28	134	57	135
Add: net operating (gain) loss from FP HFS	(19)	–	(83)	–	(23)
Add: unrealized fair value adjustments on FP HFS	–	–	–	–	1,075
Add: unrealized foreign exchange (gain) loss	(52)	–	(15)	–	(17)
Add: unrealized (gain)/loss on equity investments	4	–	4	–	–
Add: provision for mortgage investments loss	–	–	200	–	–
Add: termination of management contracts	–	7,438	–	7,438	7,438
Add: transaction costs relating to the Amalgamation	–	1,573	–	1,573	1,657
Less: bargain purchase gain	–	(15,154)	–	(15,154)	(15,154)
<b>Distributable income<sup>1</sup></b>	<b>14,080</b>	<b>7,606</b>	<b>27,491</b>	<b>14,860</b>	<b>42,636</b>
Less: dividends on common shares	(12,656)	(7,294)	(25,290)	(14,589)	(39,893)
<b>Under distribution</b>	<b>\$ 1,424</b>	<b>\$ 312</b>	<b>\$ 2,201</b>	<b>\$ 271</b>	<b>\$ 2,743</b>
Distributable income per share	0.19	\$ 0.19	0.37	\$ 0.37	0.74

1 Refer to non-IFRS measures section, where applicable.

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements and its ability to generate recurring cash flows for dividends.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## Statement of net income and comprehensive income

	Three months ended		%	Six months ended		%
	June 30,			June 30,		
	2017	2016	Change	2017	2016	Change
Net interest income	\$ 21,448	\$ 10,922	96.4%	\$ 42,215	\$ 21,720	94.4%
Expenses	(3,091)	(2,418)	(27.8%)	(6,314)	(4,853)	(30.1%)
Income from operations	18,357	8,504	115.9%	35,901	16,867	112.8%
Net operating gain (loss) from FPHFS	19	(39)	148.7%	83	(33)	351.5%
Loss on disposal of FPHFS	(143)	–	(100.0%)	(143)	–	(100.0%)
Termination of management contracts	–	(7,438)	100.0%	–	(7,438)	100.0%
Transaction costs relating to the Amalgamation	–	(1,573)	100.0%	–	(1,573)	100.0%
Bargain purchase gain	–	15,154	(100.0%)	–	15,154	(100.0%)
Financing costs:						
Interest on credit facility	(2,831)	(600)	(371.8%)	(5,569)	(1,127)	(394.1%)
Interest on convertible debentures	(2,267)	(666)	(240.4%)	(4,191)	(1,332)	(214.8%)
<b>Net income and comprehensive income</b>	<b>\$ 13,135</b>	<b>\$ 13,342</b>	<b>(1.6%)</b>	<b>\$ 26,081</b>	<b>\$ 20,518</b>	<b>27.1%</b>
<b>Earnings per share (basic)</b>	<b>\$ 0.18</b>	<b>\$ 0.33</b>		<b>\$ 0.35</b>	<b>\$ 0.50</b>	
<b>Earnings per share (diluted)</b>	<b>\$ 0.18</b>	<b>\$ 0.32</b>		<b>\$ 0.35</b>	<b>\$ 0.50</b>	
<b>Adjusted earnings per share (basic and diluted)</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>		<b>\$ 0.35</b>	<b>\$ 0.35</b>	

1 Refer to non-IFRS measures section, where applicable.

### Net interest income <sup>2</sup>

For Q2 2017 and YTD 2017, the Company earned net interest income of \$21.4 million and \$42.2 million (Q2 2016 – \$10.9 million; YTD 2016 – \$21.7 million). Net interest income includes the following:

#### (a) Interest income

During Q2 2017 and YTD 2017, the Company earned \$26.5 million and \$52.3 million (Q2 2016 – \$9.7 million; YTD 2016 – \$19.5 million) in interest income on the net mortgage investments and other investments. For Q2 2017 and YTD 2017, the increase is mainly attributable to the Amalgamation, as 2017 is the first full year in operations after the Amalgamation. The weighted average interest rate on net mortgage investments remained stable at 7.3% from Q1 2017 but decreased from 9.1% from Q2 2016 and 9.0% from YTD 2016 which is in-line with management's expectations. The weighted average interest rate was impacted after the Amalgamation to reflect the lower risk profile of the Amalgamated company as compared to the comparative period which only reflected TMIC.

#### (b) Lender fee income

During Q2 2017 and YTD 2017, the Company received non-refundable cash lender fees of \$2.3 million and \$3.6 million (Q2 2016 – \$1.2 million; YTD 2016 – \$2.1 million), or a weighted average lender fee of 0.9% (Q2 2016 – 1.5%; YTD 2016 – 1.8%). Lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income but are received upfront. For Q2 2017 and YTD 2017, lender fees of \$1.9 million and \$3.7 million (Q2 2016 – \$1.1 million; YTD 2016 – \$2.1 million) were amortized to lender fee income. Lender fees continue to be a significant component of income as a result of mortgage investment turnover. The Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders.

<sup>2</sup> For analysis purposes, net interest income and its component parts are discussed net of payments made on account of mortgage syndications to provide the reader with a more representative reflection of the Company's performance. Refer to non-IFRS measures.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## Expenses

For Q2 2017 and YTD 2017, the expense ratio was 1.0% (Q2 2016 and YTD 2016 – 2.1%), including a fixed expense ratio of 1.0% (Q2 2016 and YTD 2016 – 1.6%). The decrease in expense ratio is mainly driven by higher total assets base in YTD 2017 compared to YTD 2016. Concurrent with the Amalgamation, the Company has entered into a new management agreement with the Manager, which has reduced management fees from 1.20% to 0.85% and included the removal of performance fees.

## Management fees

### (a) Management fees

Concurrently with the Amalgamation, the Company and the Manager entered into a new management agreement. The new management fee is equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross Assets is defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties.

The previous management agreement between TMIC and the Manager was terminated on the Effective Date and the old management fee was 1.20% per annum of the gross assets of TMIC, plus applicable taxes.

For Q2 2017 and YTD 2017, the Company incurred management fees of \$2.6 million and \$5.1 million plus applicable taxes (Q2 2016 – \$1.6 million; YTD 2016 – \$3.1 million). The increase is directly related to the increase in gross assets averaging \$1,077.6 million in YTD 2017, compared to \$461.7 million in YTD 2016.

## Servicing and performance fees

### (a) Servicing fees

As part of the new management agreement, the Manager is entitled to a servicing fee equal to 0.10% per annum, plus applicable taxes, of the amount of any senior tranche of a mortgage asset that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion.

For Q2 2017 and YTD 2017, the Company incurred \$0.2 million and \$0.3 million in servicing fees plus applicable taxes.

### (b) Performance fees

Under the management agreement prior to the Amalgamation, the Manager was entitled to a performance fee from TMIC equal to 20%, plus applicable taxes, of the net earnings available for distribution to shareholders in excess of the hurdle rate (the "Hurdle Rate"), which is defined as the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points. Under the new management agreement, the Manager does not receive any performance fees.

During Q2 2016 and YTD 2016, the Company accrued \$0.6 million and \$1.2 million in performance fees. Performance fees of \$1.2 million were accrued up to June 29, 2016, prior to the Amalgamation and were paid to the Manager upon termination of the management agreement in August 2016.

As consideration for the termination of the performance fee and the reduction in management fees from 1.2% to 0.85% under the new management agreement, TMIC issued a one-time payment to the Manager in the form of 782,830 TMIC shares and \$0.9 million for the related HST portion in cash.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## General and administrative

For Q2 2017 and YTD 2017, the Company incurred general and administrative expenses of \$365 and \$734 (Q2 2016 – \$249; YTD 2016 – \$526). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage investments portfolio.

## Net operating gain (loss) from foreclosed properties held for sale

The Company consolidates the operating activities of the FPHFS. The net operating gain from FPHFS for Q2 2017 and YTD 2017 was \$19 and \$83 (Q2 2016 – loss of \$39; YTD 2016 – loss of \$33).

## Realized loss from disposal of foreclosed properties held for sale

The Company disposed of one FPHFS in Q2 2017 and realized a loss of \$143 (Q2 2016 and YTD 2016 – nil).

## Interest on credit facility

The Company actively monitors its advances and repayments while efficiently using bankers' acceptances for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q2 2017 and YTD 2017 relating to the credit facility were \$2.8 million and \$5.6 million (Q2 2016 – \$0.6 million; YTD 2016 – \$1.1 million). The increase over the comparable 2016 periods is directly related to the increase in credit facility utilization. During YTD 2017, the average credit utilization was \$306.9 million compared to \$47.4 million during YTD 2016.

In connection with the Amalgamation, the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility. The interest rates incurred on the new credit facility have decreased from TMIC's previous credit facility. Interest rates have been lowered to either the prime rate of interest plus 1.25% per annum (YTD 2016 – 1.25%) or bankers' acceptances with a stamping fee of 2.25% (YTD 2016 – 2.25%).

## Interest on convertible debentures

The Company has \$34.5 million of 6.35% convertible unsecured subordinated debentures, \$45.8 million of 5.40% convertible unsecured subordinated debentures, \$46.0 million of 5.45% convertible unsecured subordinated debentures and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at June 30, 2017. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method.

On February 7, 2017, the Company issued a convertible unsecured subordinated debenture bearing interest at a fixed rate of 5.45% for gross proceeds of \$46.0 million. The convertible unsecured subordinated debentures will mature on March 31, 2022 and pay interest semi-annually on March 31<sup>st</sup> and September 30<sup>th</sup>.

On June 13, 2017, the Company completed a public offering of \$40.0 million, plus an over-allotment option of \$5.0 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for gross proceeds of \$45.0 million. The convertible unsecured subordinated debentures will mature on June 30, 2024 and pay interest semi-annually on June 30<sup>th</sup> and December 31<sup>st</sup>.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

For Q2 2017 and YTD 2017, interest on the debentures of \$2.3 million and \$4.2 million (Q2 2016 – \$0.7 million; YTD 2016 – \$1.3 million), is made up of the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Interest on the convertible debentures	\$ 1,909	\$ 548	\$ 3,444	\$ 1,095
Amortization of issue costs	334	90	613	181
Accretion of the convertible debentures	24	28	134	56
	<b>\$ 2,267</b>	<b>\$ 666</b>	<b>\$ 4,190</b>	<b>\$ 1,332</b>

## Earnings per share

For Q2 2017 and YTD 2017, basic and diluted earnings per share were \$0.18 and \$0.35 (Q2 2016 – \$0.33 basic and \$0.32 diluted; YTD 2016 – \$0.50 basic and diluted).

In accordance with IFRS, convertible debentures are considered for potential dilution in the calculation of the diluted earnings per share. Each series of convertible debentures is considered individually and only those with dilutive effect on earnings are included in the diluted earnings per share calculation. Convertible debentures that are considered dilutive are required by IFRS to be included in the diluted earnings per share calculation notwithstanding that the conversion price of such convertible debentures may exceed the market price and book value of the Company's common shares.

## Statements of Financial Position

### Net mortgage investments

The balance of net mortgage investments is as follows:

	June 30, 2017	December 31, 2016
Mortgage investments, including mortgage syndications	\$ 1,681,087	\$ 1,549,849
Mortgage syndication liabilities	(572,812)	(543,505)
	1,108,275	1,006,344
Interest receivable	(16,983)	(14,084)
Unamortized lender fees	6,352	6,736
Allowance for mortgage investments loss	481	1,150
<b>Net mortgage investments</b>	<b>\$ 1,098,125</b>	<b>\$ 1,000,146</b>

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

	Three months ended		Six months ended		Year ended
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	December 2016
<b>Net mortgage investments statistics and ratios<sup>1</sup></b>					
Total number of net mortgage investments	119	113	119	113	122
Average net mortgage investment	\$ 9,266	\$ 7,911	\$ 9,266	\$ 7,911	\$ 8,198
Average net mortgage investment portfolio	\$ 1,033,968	\$ 430,520	\$ 1,024,899	\$ 433,506	\$ 701,263
Weighted average interest rate for the period	7.2%	9.1%	7.2%	9.0%	7.9%
Weighted average lender fees	0.9%	1.5%	0.9%	1.8%	1.2%
Turnover ratio	11.0%	15.5%	18.4%	30.1%	48.9%
Weighted average term (years)	2.3	2.3	2.3	2.3	2.4
Remaining term to maturity (years)	1.3	1.2	1.3	1.2	1.3
Net mortgage investments secured by cash-flowing properties	90.4%	85.5%	90.4%	85.5%	86.7%
Weighted average loan-to-value	65.6%	68.1%	65.6%	68.1%	66.4%

1. Refer to non-IFRS measures section, where applicable.

## Portfolio allocation

The Company's net mortgage investments, excluding FPHFS and other investments, were allocated across the following categories:

### (a) Security Position

	June 30, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
First mortgages	105	91.9%	102	84.1%
Non-first mortgages	14	8.1%	20	15.9%
	<b>119</b>	<b>100.0%</b>	<b>122</b>	<b>100.0%</b>

### (b) Region

	June 30, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
ON	56	53.2%	60	54.0%
QC	22	16.0%	21	12.8%
BC	15	11.6%	13	12.4%
AB	9	10.4%	9	8.3%
SK	13	6.6%	10	6.8%
OT	1	0.4%	3	3.2%
NS	1	1.6%	2	2.1%
MB	2	0.2%	4	0.4%
	<b>119</b>	<b>100.0%</b>	<b>122</b>	<b>100.0%</b>

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## (c) Maturity

	June 30, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
Maturing 2017	35	29.8%	63	47.5%
Maturing 2018	43	30.7%	37	31.2%
Maturing 2019	27	26.7%	17	15.3%
Maturing 2020	11	10.0%	2	2.9%
Maturing 2021 and thereafter	3	2.8%	3	3.1%
	<b>119</b>	<b>100.0%</b>	<b>122</b>	<b>100.0%</b>

## (d) Asset Type

	June 30, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
Multi-residential	64	50.3%	70	49.4%
Retail	14	14.8%	13	15.9%
Hotels	5	8.4%	5	8.8%
Retirement	5	7.1%	5	7.8%
Office	10	8.4%	7	5.8%
Unimproved land	8	4.8%	9	5.7%
Other-residential	3	3.3%	3	3.3%
Industrial	7	2.1%	7	2.4%
Self-storage	2	0.5%	1	0.6%
Single-family residential	1	0.2%	2	0.3%
	<b>119</b>	<b>100.0%</b>	<b>122</b>	<b>100.0%</b>

## Other investments

Other investments may include investments in collateralized loans, participating mortgages and marketable securities. The Company has other investments of \$64.8 million (December 31, 2016 – \$9.8 million). During Q2 2017 and YTD 2017, the Company generated net interest income and other income of \$1.0 million and \$1.6 million (Q2 2016 and YTD 2016 – nil). During Q2 2017 and YTD 2017, the weighted average interest rate earned on other investments was 10.9% and 11.1% (Q2 2016 and YTD 2016 – nil). During Q2 2017 and YTD 2017, the Company received total lender fees on other investments, of \$327 and \$447 (Q2 2016 and YTD 2016 – nil), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

As at June 30, 2017, the Company held \$2.9 million (December 31, 2016 – nil) in marketable securities.

## Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of \$572.8 million (December 31, 2016 – \$543.5 million). In general, mortgage

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syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time, and not necessarily indicative of a future trend.

## Foreclosed properties held for sale

The fair value of the remaining FPHFS as at June 30, 2017 is \$6.0 million (December 31, 2016 – \$11.0 million). The Company has engaged third party managers to operate the properties while they are held for sale.

During YTD 2017, the Company disposed of a foreclosed property with a book value of \$5.0 million resulting in a net loss of \$143. As part of the sale, the Company issued the purchaser a mortgage of \$4.4 million bearing interest at 4% per annum and due in 2020. During YTD 2016, the Company sold five units for proceeds of \$720 within a foreclosed residential property.

## Allowance for mortgage investments loss

As at June 30, 2017, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment other than those previously recorded. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. During Q2 2017 and YTD 2017, a collective impairment of nil and \$0.2 million was recognized (Q2 2016 and YTD 2016 – nil).

During Q2 2017, the Company applied a specific impairment provision of \$869 and reclassified \$33 from a specific impairment to a collective unrealized allowance. As at June 30, 2017, the Company has no specific unrealized impairment allowance (December 31, 2016 – \$0.9 million) and a collective unrealized allowance of \$481 (December 31, 2016 – \$250).

As at June 30, 2017, the borrower of a first mortgage investment of \$26.6 million (December 31, 2016 – \$27.6 million) located in Saskatchewan has filed for protection under the Companies' Creditor Arrangement Act in order to stay all creditors and prepare a plan of arrangement. The Manager has evaluated the current status of the borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment. As part of the arrangement process, \$1.6 million of the first mortgage investments was assumed by a new borrower.

As at June 30, 2017, the Company has filed for receivership against a borrower of a first mortgage investment of \$3.7 million (December 31, 2016 – \$3.4 million) located in Ontario. The Manager has evaluated the current status of the borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

## Net working capital

Net working capital increased by \$7.5 million to \$16.9 million at June 30, 2017 from \$9.4 million at December 31, 2016. The increase is mainly due to the higher amount of accrued interest receivable as a result of an increase in the mortgage and other investments.

## Credit facility

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement effective June 30, 2016 and will mature in May 2018. The new credit facility has an available credit limit of \$400.0 million (December 31, 2016 – \$350.0 million) with interest at either the prime rate of interest plus 1.25% per annum (December 31, 2016 – prime rate of interest plus 1.25% per

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2016 – 2.25%). The new credit facility has a standby fee of 0.5625% per annum (December 31, 2016– 0.5625%) on the unutilized credit facility balance. The credit facility is secured by a general security agreement over the Company's assets and its subsidiaries. As at June 30, 2017, the Company's qualified credit facility limit is \$385.3 million and is subject to a borrowing base as defined in the new amended and restated credit agreement.

The Company incurred financing costs of \$2.3 million relating to the new credit facility, which includes upfront fees, amalgamation fees and legal costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2017 and YTD 2017, included in financing costs is interest on the credit facility of \$2.5 million and \$5.0 million (Q2 2016 – \$0.4 million; YTD 2016 – \$0.9 million) and financing costs amortization of \$293 and \$571 (Q2 2016 – \$155; YTD 2016 – \$217).

## Convertible debentures

(a) On February 25, 2014, TMIC completed a public offering of \$30.0 million, plus an over-allotment of \$4.5 million on March 3, 2014, of 6.35%, convertible unsecured subordinated debentures for net proceeds of \$32.5 million (the "2014 debentures"). The 2014 debentures mature on March 31, 2019 and pays interest semi-annually on March 31 and September 30 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.25 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures. The 2014 debentures are redeemable on and after March 31, 2017 and prior to the maturity date by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 2014 debentures in the aggregate principal amount of \$34.5 million.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$545, has been recorded as equity with the remainder allocated to long-term debt.

The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$34.5 million. The issue costs of \$1.9 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

- (b) On July 29, 2016, the Company completed a public offering of \$40.0 million, plus an overallotment option of \$5.8 million on August 5, 2016, of 5.40%, convertible unsecured subordinated debentures for net proceeds of \$43.1 million (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pays interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The 2016 debentures are redeemable on and after July 31, 2019 and prior to July 31, 2020, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45.8 million. The issue costs of \$2.3 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (c) On February 7, 2017, the Company completed a public offering of \$40.0 million, plus an overallotment option of \$6.0 million, of 5.45% convertible unsecured subordinated debentures for net proceeds of \$43.7 million (the "February 2017 debentures"). The February 2017 debentures mature on March 31, 2022 and pays interest semi-annually on September 30 and March 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The February 2017 debentures are redeemable on and after March 31, 2020 and prior to March 31, 2021, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$0.6 million, has been recorded as equity with the remainder allocated to long-term debt. During the three month period ended June 30, 2017, the Company revised its estimate of the liability component to adjust for an immaterial amount resulting in the allocation to equity being reduced from \$1.7 million to \$0.6 million. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$46.0 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

- (d) On June 13, 2017, the Company completed a public offering of \$40.0 million, plus an overallotment option of \$5.0 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42.8 million (the "June 2017 debentures"). The June 2017 debentures mature on June 30, 2024 and pays interest semi-annually on June 30 and December 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.10 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The June 2017 debentures are redeemable on and after June 30, 2020 and prior to June 30, 2022, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$0.6 million, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45.0 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

## Shareholders' equity

### (a) Common shares

The Company is authorized to issue an unlimited number of common shares. The common shareholders are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

As a result of the Amalgamation, 40,523,728 the Company's common shares were issued to shareholders of TMIC at a ratio of one-to-one; and 32,551,941 of the Company's common shares were issued to shareholders of TSMIC at an exchange ratio of 1.035. The Company also issued 782,830 common shares to the Manager in connection with the termination of management contracts with TMIC.

### (b) Dividends

The Company intends to pay dividends monthly within 15 days following the end of each month. During Q2 2017 and YTD 2017, TF declared dividends of \$12.7 million and \$25.3 million, or \$0.171 and \$0.342 per share, to the holders of TF common shares (Q2 2016 – \$7.3 million, \$0.18 per share; YTD 2016 – \$14.6 million, \$0.36 per share). As at June 30, 2017, \$4.2 million in aggregate dividends (December 31, 2016 – \$4.2 million) was payable to the holders of common shares of TF by the Company. Subsequent to June 30, 2017, the Board of Directors of the Company declared dividends of \$0.057 per common share to be paid on August 15, 2017 to the common shareholders of record on July 31, 2017.

### (c) Dividend reinvestment plan

In connection with the Amalgamation, the DRIP under TMIC was terminated effective June 22, 2016 and a new DRIP was subsequently adopted by the Company on July 13, 2016.

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The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provides eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be issued from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. During Q2 2017 and YTD 2017, nil and 37,603 common shares were purchased on the open market (Q2 2016 – 91,475; YTD 2016 – 187,564), and 118,020 and 192,737 (Q2 2016 and YTD 2016 – nil) were purchased through treasury.

## (d) Non-executive director deferred share unit plan

Pursuant to the Amalgamation, on the Effective Date, the DSU plan for TMIC was terminated and the outstanding DSUs were settled by TMIC in accordance with the terms of the respective plans. As a result, TMIC's outstanding DSUs of 30,497 were cancelled and \$300 was paid to the directors in July 2016.

Commencing June 30, 2016, the Company instituted a non-executive director deferred share unit plan, whereby a director can elect up to 100% of the compensation be paid in the form of DSUs, credited quarterly in arrears. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value of the DSU is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). The directors are entitled to also accumulate additional DSUs equal to the monthly cash dividends, on the DSUs already held by that director determined based on the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director DSU accounts will be credited with the number of DSUs calculated by multiplying the total compensation payable in DSUs divided by the Fair Market Value. Each director is also entitled to an additional 25% of DSUs that are issued in the quarter up to a maximum value of \$5 per annum.

The Plan will pay a lump sum payment in cash equal to the number of DSUs held by each director multiplied by the Fair Market Value as of the 24<sup>th</sup> business day after publication of the Company's financial statements following a director's departure from the Board of Directors.

During Q2 2017 and YTD 2017, 5,771 and 11,125 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$59 and \$110 based on a Fair Market Value of \$9.22 per common share. As at June 30, 2017, \$47 in quarterly compensation was granted in DSUs, which will be issued subsequent to June 30, 2017 at the Fair Market Value.

## STATEMENT OF CASH FLOWS

### Cash from operating activities

Cash from operating activities for Q2 2017 and YTD 2017 was \$15.7 million and \$30.3 million (Q2 2016 – \$9.0 million; YTD 2016 – \$14.9 million) which was attributable to the Amalgamation as well as an increase in mortgage investments as a result of the February and June 2017 Debentures and the increased credit facility capacity.

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## Cash from (used in) financing activities

Uses of cash from financing activities for Q2 2017 and YTD 2017 consisted of the Company's net advances on the credit facility of \$67.3 million and \$63.0 million (Q2 2016 – \$0.4 million net advance; YTD 2016 – \$0.5 million net repayments). The company received \$42.7 million and \$86.4 million from the issuance of convertible debentures after issue costs. The Company paid interest on the debentures and credit facility of \$2.8 million and \$7.6 million (Q2 2016 – \$2.5 million; YTD 2016 – \$4.1 million), common share dividends of \$11.6 million and \$23.2 million (Q2 2016 – \$6.5 million; YTD 2016 – \$13.1 million) and repurchase of common share of nil and \$0.3 million (Q2 2016 – \$0.8 million; YTD 2016 – \$1.5 million). The net cash provided by financing activities for Q2 2017 and YTD 2017 was \$95.7 million and \$118.3 million (Q2 2016 – \$9.5 million; YTD 2016 – \$19.2 million).

## Cash (used in) from investing activities

Net cash used in investing activities in Q2 2017 and YTD 2017 was \$111.1 million and \$148.1 million (Q2 2016 – \$11.9 million; YTD 2016 – \$15.8 million) and consisted of the funding of net mortgage investments of \$180.8 million and \$240.6 million (Q2 2016 – \$77.3 million; YTD 2016 – \$136.6 million), offset by repayments of net mortgage investments of \$101.4 million and \$139.2 million (Q2 2016 – \$88.9 million; YTD 2016 – \$151.8 million), funding of other investments of \$33.1 million and \$48.2 million (Q2 2016 and YTD 2016 – nil), offset by repayments of other investments of \$1.0 million (Q2 2016 and YTD 2016 – nil) and proceeds from disposition of FPHFS of \$457 (Q2 2016 – \$249; YTD 2016 – \$720).

## QUARTERLY FINANCIAL INFORMATION

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

	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	2017	2017	2016	2016	2016	2016	2015	2015
Net interest income <sup>1</sup>	\$ 21,448	\$ 20,764	\$ 20,583	\$ 19,119	\$ 10,922	\$ 10,798	\$ 10,814	\$ 10,161
Expenses	(3,091)	(3,223)	(2,643)	(2,695)	(2,418)	(2,435)	(2,387)	(3,145)
Income from operations <sup>1</sup>	18,357	17,541	17,940	16,424	8,504	8,363	8,427	7,016
Net operating gain (loss) from FPHFS	19	64	3	53	(39)	6	(28)	25
Realized loss on disposal of FPHFS	(143)	-	-	-	-	-	-	-
Fair value adjustment of FPHFS	-	-	(500)	(575)	-	-	(374)	-
Non-recurring transaction costs relating to the Amalgamation	-	-	(84)	-	6,143	-	-	-
Financing costs:								
Interest on credit facility	(2,831)	(2,737)	(2,833)	(2,321)	(600)	(527)	(554)	(208)
Interest on convertible debentures	(2,267)	(1,923)	(1,448)	(1,178)	(666)	(665)	(566)	(673)
Total financing costs	(5,098)	(4,660)	(4,281)	(3,499)	(1,266)	(1,192)	(1,120)	(881)
<b>Total net income and comprehensive income (basic)</b>	<b>\$ 13,135</b>	<b>\$ 12,945</b>	<b>\$ 13,078</b>	<b>\$ 12,403</b>	<b>\$ 13,342</b>	<b>\$ 7,177</b>	<b>\$ 6,905</b>	<b>\$ 6,160</b>
<b>Total net income and comprehensive income (diluted)<sup>1</sup></b>	<b>\$ 14,589</b>	<b>\$ 13,695</b>	<b>\$ 14,526</b>	<b>\$ 13,581</b>	<b>\$ 14,009</b>	<b>\$ 7,177</b>	<b>\$ 7,471</b>	<b>\$ 6,833</b>
<b>Earnings per share (basic)</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.33</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.15</b>
<b>Earnings per share (diluted)</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.32</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.15</b>
<b>Adjusted earnings per share (basic and diluted)<sup>1</sup></b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.17</b>	<b>\$ 0.15</b>
<b>Distributable income<sup>1</sup></b>	<b>\$ 14,080</b>	<b>\$ 13,838</b>	<b>\$ 13,410</b>	<b>\$ 13,911</b>	<b>\$ 7,606</b>	<b>\$ 7,246</b>	<b>\$ 7,256</b>	<b>\$ 7,161</b>
<b>Distributable income per share<sup>1</sup></b>	<b>\$ 0.19</b>	<b>\$ 0.19</b>	<b>\$ 0.18</b>	<b>\$ 0.19</b>	<b>\$ 0.19</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>

1 Refer to non-IFRS measures section, where applicable.

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The variations in total net income and comprehensive income by quarter are mainly attributed to the following:

- (i) In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;
- (ii) Within expenses, the Company accrues the performance fee payable to the Manager. Given that the performance fee is adjusted for cash items, the volatility of cash receipts in the year (mainly relating to lender fees) will typically have an impact on the amount expensed in any quarter;
- (iii) In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and provision for mortgage investment loan resulting in fluctuations in quarterly total net income and comprehensive income;
- (iv) The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs; and
- (v) Q2 2016 and Q4 2016 includes one-time amounts relating to the Amalgamation which includes termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain.

## RELATED PARTY TRANSACTIONS

As at June 30, 2017, Due to Manager includes mainly management and servicing fees payable of \$1.0 million (December 31, 2016 - \$0.8 million).

As at June 30, 2017, included in other assets is \$3.5 million (December 31, 2016 - \$0.8 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

As at June 30, 2017, the Company has four mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage investment with a total gross commitment of \$84.1 million (December 31, 2016 - \$84.1 million). The Company's share of the commitment is \$29.1 million (December 31, 2016 - \$29.1 million), of which \$10.0 million (December 31, 2016 - \$7.3 million) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$196 and \$363 (Q2 2016 - \$66; YTD 2016 - \$118) from this mortgage investment during the period.
- A mortgage investment with a total gross commitment of \$15.6 million (December 31, 2016 - \$15.6 million). The Company's share of the commitment is \$6.0 million (December 31, 2016 - \$6.0 million), of which \$3.6 million (December 31, 2016 - \$3.6 million) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$85 and \$170 (Q2 2016 - \$85; YTD 2016 - \$170) from this mortgage investment during the period.
- A mortgage investment with a total gross commitment of \$4.3 million (December 31, 2016 - \$6.0 million). The Company's share of the commitment is \$4.3 million (December 31, 2016 - \$5.1 million), of which \$1.9 million

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(December 31, 2016 – \$2.0 million) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$39 and \$79 (Q2 2016 and YTD 2016 - nil) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2016 – \$1.9 million). The Company's share of the commitment is \$1.9 million (December 31, 2016 – \$1.9 million), of which \$1.9 million (December 31, 2016 – \$1.9 million) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$29 and \$58 (Q2 2016 and YTD 2016 - nil) from this mortgage investment during the period.

As at June 30, 2017, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in 20 (December 31, 2016 – ten) gross mortgage investments totaling 376.7 million (December 31, 2016 – \$254.9 million). The Company's share in these gross mortgage investments is \$170.8 million (December 31, 2016 – \$109.5 million). Included in these amounts are two net mortgage investments (December 31, 2016 – two) of \$19.0 million (December 31, 2016 – \$17.7 million) loaned to a limited partnership in which T4Q is invested.

The above related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## COMMITMENTS AND CONTINGENCIES

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

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.

## CRITICAL ACCOUNTING ESTIMATES

In the preparation of the unaudited condensed consolidated interim financial statements, the Manager has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making those estimates and judgments in the unaudited condensed consolidated interim financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the unaudited condensed consolidated interim financial statements are as follows:

### Mortgage investments

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: (i) payment default by a borrower; (ii) whether security of the mortgage

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negatively impacted by some event; and (iii) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

The Company applies judgment in assessing the relationship between parties with which it enters into participation agreements in order to assess the derecognition of transfers relating to mortgage investments.

## Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Manager will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Information about the assumptions made in measuring fair value is included in notes 5, 6 and 18 to the unaudited condensed consolidated interim financial statements for the period ended June 30, 2017.

## Convertible debentures

The Manager exercises judgement in determining the allocation of the debt and liability components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

## Business Combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 4 of the unaudited condensed consolidated interim financial statements for the period ended June 30, 2017, which was accounted for in accordance with IFRS 3 – Business Combinations ("IFRS 3"). The Manager considered the guidance in IFRS 3 in determining which entity is considered the "acquirer" based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

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## CHANGES IN ACCOUNTING POLICIES

### (i) Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016, the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. Upon adoption of the amendment, the Company's financial statements were not impacted.

### (ii) Disclosure Initiative: Amendments to International Accounting Standard ("IAS") 7

On January 7, 2016, the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company has provided additional disclosure in note 7 of the unaudited condensed consolidated interim financial statements to comply with the requirements.

## FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective in future periods and have not been applied in preparing these unaudited condensed consolidated interim financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

### (i) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to *IFRS 2 Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

### (ii) IFRS 9, Financial Instruments ("IFRS 9")

The Company will adopt IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period

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

The Company has commenced the evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at June 30, 2017, the principal areas impacted are: classification of financial assets and impairment of financial assets. IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"), and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company does not currently apply hedge accounting in its consolidated financial statements.

The Company expects to complete the assessment of the impact of adopting IFRS 9 during the second half of 2017.

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## (iii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall within the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with earlier application permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue: Barter Transactions Involving Advertising Services. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the new standard to have a material impact on the financial statements

## OUTSTANDING SHARE DATA

As at August 9, 2017, the Company's authorized capital consists of an unlimited number of common shares, of which 74,089,514 are issued and outstanding.

## CAPITAL STRUCTURE AND LIQUIDITY

### Capital structure

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company believes that the conservative amount of structural leverage gained from the debentures and credit facility is accretive to net earnings, appropriate for the risk profile of the business. The Company anticipates meeting all of its contractual liabilities (described below) using its mix of capital structure and cash flow from operating activities.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

### Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and the credit facility. The Company has a borrowing ability of \$400 million through its credit facility and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at June 30, 2017, the Company is in compliance with its credit facility covenants and expects to remain in compliance going forward.

The Company routinely forecasts cash flow sources and requirements, including unadvanced commitments, to ensure cash is efficiently utilized.

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The following are the contractual maturities of financial liabilities as at June 30, 2017, including expected interest payments:

	Carrying Values	Contractual cash flows	Within a year	Following year	3-5 years
Accounts payable and accrued expenses	\$ 3,514	\$ 3,514	\$ 3,514	\$ –	\$ –
Dividends payable	4,221	4,221	4,221	–	–
Due to Manager	953	953	953	–	–
Mortgage funding holdbacks	586	586	586	–	–
Prepaid mortgage interest	2,956	2,956	2,956	–	–
Credit facility <sup>1</sup>	363,590	376,755	376,755	–	–
Convertible debentures <sup>2</sup>	162,863	190,684	42,048	7,365	141,271
Total liabilities	\$ 538,683	\$ 742,399	\$ 593,763	\$ 7,365	\$ 141,271
Unadvanced gross mortgage commitments <sup>3</sup>	–	162,730	162,730	–	–
<b>Total contractual liabilities</b>	<b>\$ 538,683</b>	<b>\$ 742,399</b>	<b>\$ 593,763</b>	<b>\$ 7,365</b>	<b>\$ 141,271</b>

1 Includes interest based upon the current prime interest rate plus 1.25% on the credit facility, assuming the outstanding balance is not repaid until its maturity on May 6, 2018.

2 The 2014 debentures are assumed to be redeemed on March 31, 2017 as they are redeemable on and after March 31, 2017, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, and the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.

3 Unadvanced mortgage commitments include syndication commitments from third party investors totaling \$73.7 million.

As at June 30, 2017, the Company had a cash position of \$477 (December 31, 2016 – \$61) and an unutilized credit facility balance of \$21.7 million (December 31, 2016 – \$49.4 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is \$73.7 million (December 31, 2016 – \$82.3 million) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

## FINANCIAL INSTRUMENTS

### Financial assets

The Company's cash and cash equivalents, other assets, mortgage investments and other investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of cash and cash equivalents and other assets approximate their carrying amounts due to their short-term nature. The fair value of mortgage investments, including mortgage syndications, approximate their carrying value given the mortgage and other investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

### Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of convertible debentures and mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. The fair value of the convertible debentures is based on the market trading price of convertible debentures at the reporting date.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

## RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties that may affect the Company's future performance and its ability to execute on its investment objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while other risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage investments at rates consistent with rates historically achieved, not having adequate mortgage investment opportunities presented to us, change in currency rates and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

### (a) Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of June 30, 2017, \$97.7 million of net mortgage investments bear interest at variable rates. Of these, \$83.6 million of net mortgage investments include a "floor rate" to protect their negative exposure or a "ceiling rate", while three mortgage investments totalling \$14.1 million bear interest at a variable rate without a "floor rate". If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$70. However, if there were a 0.50% increase in interest rates, with all other variables constant, it would result in an increase in net income of \$426. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

As at June 30, 2017, \$62.0 million of the other investment bear interest at fixed rates.

In addition, the Company is exposed to interest rate risk on the credit facility, which has a balance of \$363.6 million as at June 30, 2017. Based on the outstanding credit facility balance as at June 30, 2017, and assuming it was outstanding for the entire period a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1.8 million annually.

The Company's other assets, interest receivable, accounts payable and accrued expenses, prepaid mortgage interest, mortgage funding holdbacks, dividends payable and due to Manager have no exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

### (b) Currency risk

Currency risk is the risk that the carrying value of net mortgage investments and other investments will fluctuate due to changes in foreign exchange rates. Currency risk arises from net mortgage investments and other investments that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Company.

The maximum exposure to currency risk at June 30, 2017 is the carrying values of its net mortgage and other investments, net of forward currency hedges, that are not denominated in Canadian dollars was \$19.9 million (December 31, 2016 – \$3.9 million). If there was a weakening or strengthening of the Canadian dollar by 1%, with all other variables constant, this would increase or decrease net income by \$199 annually.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

The Company holds derivative financial instruments for the purpose of limiting the risks relating to the variability of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward contract agreements, the Company exchanges a fixed amount of U.S. dollars for Canadian dollars. As at June 30, 2017, the Company has two forward contracts outstanding with notional values of US\$3.0 million and US\$5.1 million, with foreign exchange rates of 1.36 and 1.35, respectively, and maturity dates of May 22, 2018 and November 1, 2018, respectively. The fair value of the foreign currency forward contract as at June 30, 2017 is an asset of \$486 which is included in other assets in the statement of financial position. The valuation of the foreign currency forward contracts was computed using Level 2 inputs.

## (c) Credit risk

Credit risk is the possibility that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Company. The Company mitigates this risk by the following:

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- (ii) ensuring all new mortgage investments are approved by the investment committee before funding; and
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at June 30, 2017 is the carrying values of its net mortgage and other investments, in addition to interest receivable recorded within other assets of \$2.7 million (December 31, 2016 – \$1.0 million), amounting to \$1,163 million (December 31, 2016 – \$1,025 million). The Company has recourse under these mortgage investments in the event of default by the borrower, in which case the Company would have a claim against the underlying collateral.

## (c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized. For a discussion of the Company's liquidity, cash flow from operations and mitigation of liquidity risk, see the "Capital Structure and Liquidity" section in this MD&A.

For a full discussion of the risks and uncertainties affecting the Company, please also refer to the "Risk Factors" section of our AIF for the period.

## DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company evaluated, or caused to be evaluated under their direct supervision, the design of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2017

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

("NI 52-109") at June 30, 2017 and, based on that evaluation, have concluded that the design of such disclosure controls and procedures was appropriate.

The Manager is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design of the Company's internal controls over financial reporting as at December 31, 2016 in accordance with the COSO Internal Control – Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment they determined that the design of the Company's internal controls over financial reporting was appropriate.

There were no changes made in our design of internal controls over financial reporting during the period ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

## ADDITIONAL INFORMATION

### Phone

Cameron Goodnough, President at 1-844-304-9967

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 923-9967 ext. 7266 (collect if long distance).

### Internet

Visit SEDAR at [www.sedar.com](http://www.sedar.com); or the Company's website at [www.timbercreekfinancial.com](http://www.timbercreekfinancial.com)

### Mail

Write to the Company at:

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Attention: Corporate Communications  
25 Price Street  
Toronto, Ontario M4W 1Z1