

## Management's Discussion and Analysis

# Timbercreek Mortgage Investment Corporation

For the three months and six months ended June 30, 2014



# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## 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 Mortgage Investment Corporation (the "Company"). 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.

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 11, 2014. 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 Manager's website at [www.timbercreek.com](http://www.timbercreek.com). Additional information about the Company, including its Annual Information Form ("AIF"), can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

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## BUSINESS OVERVIEW

Timbercreek Mortgage Investment Corporation (the "Company") is incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008. On September 13, 2013, in connection with the Transition as explained below, the Company filed articles of amendment effective as of September 13, 2013 (the "Effective Date"), to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing Class A, Class B and voting shares, and provided for the creation of a new class of common shares, for which all existing classes of redeemable shares were exchanged. On November 29, 2013 (the "Exchange Date"), all issued and outstanding Class A and Class B shares were exchanged into common shares.

The Company invests in mortgage investments selected and determined to be high quality by the Manager. The Company intends to qualify as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada).

The fundamental investment objectives of the Company are to:

- Preserve shareholder capital of the Company; and
- Provide shareholders with a stable stream of monthly dividends.

The Company intends on meeting its investment objectives by investing in a diversified portfolio of mortgage investments, consisting primarily of conventional mortgage investments secured directly by multi-residential, retirement homes, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

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## TRANSITION TO PUBLIC COMPANY REGIME

On September 12, 2013, the Company received shareholder approval for the Company's transition (the "Transition") from the Canadian securities regulatory regime for investment funds to the regulatory regime for non-investment fund reporting issuers (the "Public Company Regime").

Beginning on the Effective Date, the Company is subject to, and files all continuous disclosure materials in compliance with the Public Company Regime requirements, which includes preparation of its financial statements in accordance with International Financial Reporting Standards ("IFRS"), along with a Management's Discussion and Analysis.

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption"). The Company redeemed requests from holders of 1,674,568 Class A shares and 259,771 Class B shares for the Special Redemption. The total redemptions payable of \$18.0 million were paid on November 27, 2013. On the Exchange Date, the Company exchanged all of the 32,829,013 outstanding Class A shares and 3,887,053 outstanding Class B shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on November 29, 2013, continuing under the symbol 'TMC', and the Class A shares ceased to trade after the close of market on November 28, 2013.

Additionally, Messrs. Ugo Bizzarri and Andrew Jones were elected as additional directors of the Company.

Effective September 13, 2013, the Company entered into a new management agreement with the Manager and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services for the Company's mortgage investments.

In connection with the Transition, the Company incurred total costs of \$3.8 million, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. The Manager elected to assume responsibility for \$0.3 million of costs relating to the Transition.

## 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, 2014 ("Q2 2014" and "YTD 2014" respectively) and 2013 ("Q2 2013" and "YTD 2013" respectively). This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the three months and six months ended June 30, 2014 and 2013, which are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), as applicable to interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

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 the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

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## NON-IFRS MEASURES

The Company prepares and releases consolidated 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 ability of the Company to earn and distribute cash dividends to shareholders and to evaluate the Company's performance. These non-IFRS measures should not be construed as alternatives to net income and comprehensive income or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Expense ratio – represents total expenses (excluding financing costs, net operating loss on foreclosed properties held for sale and provision for mortgage investments loss) for the stated period, expressed as an annualized percentage of the average net mortgage investment portfolio;
- Fixed expense ratio – represents total expenses (excluding performance fees, financing costs, net operating loss on foreclosed properties held for sale and provision for mortgage investments loss ) for the stated period, expressed as an annualized percentage of the average net mortgage investment portfolio;
- 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;
- Average net mortgage investment – represents the total net mortgage investments divided by the total number of mortgage investments at the reporting date;
- Average net mortgage investment portfolio – represents the monthly average of the net mortgage investments portfolio over the stated period;
- Weighted average interest rate – represents the weighted average interest rate (not including lender fees) on the net mortgage investments at the reporting date;
- Average lender fees – represents the cash lender fees received as a percentage of new net mortgage investments funded during the stated period;
- 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; and
- Payout ratio – represents total dividends paid to the holders of redeemable shares and common shares during the stated period, divided by distributable income for the stated period.

# Management's Discussion and Analysis

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## RECENT DEVELOPMENTS AND OUTLOOK

During the first half of 2014, the portfolio of mortgage investments has performed very well and continues to be well diversified with the majority of the loans secured by income producing real estate in strong markets. The Manager strategically targets income properties as security because these assets are generally more liquid, and the likelihood of default or impairment is significantly reduced by the fact that the properties generate cash flow which can service the mortgage investments. The quality of the Company's portfolio is demonstrated by the continual repayments of mortgage investments, which totaled over 36% in the quarter, our highest quarterly turnover since inception.

Over the same period, this segment of the market, being loans secured by income producing properties, has seen additional availability of capital from non-bank lenders as well as certain institutional investors that are attracted to the strong risk-adjusted returns. This additional availability of capital in the market has slowed the redeployment of the extraordinary repayments in the second quarter and put some pressure on interest rates, resulting in a higher than anticipated cash drag and a slightly lower average interest rate through the first half of 2014.

Given the market conditions in the first half of the year and the Company's first priority of preserving capital, the Board of Directors has focused their attention over the last quarter to the payout ratio. After assessing the impacts of the cash-drag in the first half of the year relative to projected cash flow for the remainder of the year, the Board of Directors felt the prudent course of action was to reduce the dividend to improve the payout ratio by year-end. The Board of Directors and Management believe that this decision will allow the Company to continue to generate a very healthy, risk-adjusted yield for investors without compromising the current credit quality in the portfolio.

In spite of the additional availability of capital in the market, the Manager has been successful in deploying sizable amounts of capital over the first half of the year. In excess of \$165 million of new mortgage investments have been funded year-to-date with strong momentum leading into the third quarter.

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## FINANCIAL HIGHLIGHTS

The financial highlights of the Company are as follows:

	Three months ended		Six months ended		Year ended
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	December 31, 2013
<b>STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (as at)</b>					
Mortgage investments, including mortgage syndications	\$ 437,936	\$ 455,020	\$ 437,936	\$ 455,020	\$ 442,166
Total assets	\$ 516,254	\$ 461,165	\$ 516,254	\$ 461,165	\$ 467,406
Net assets attributable to holders of redeemable shares	\$ –	\$ 356,533	\$ –	\$ 356,533	\$ –
Shareholders' equity	\$ 367,556	\$ –	\$ 367,556	\$ –	\$ 336,568
<b>FINANCIAL INFORMATION (for the period ended)</b>					
Distributable income	\$ 6,977	\$ 6,742	\$ 13,477	\$ 15,051	\$ 30,204
Targeted dividend yield <sup>1</sup>	6.57%	6.58%	6.54%	6.57%	6.61%
Actual dividend yield <sup>2</sup>	8.47%	8.19%	8.52%	8.23%	8.33%
Closing trading price	\$ 9.52	\$ 9.26	\$ 9.52	\$ 9.26	\$ 9.17
Payout ratio <sup>3</sup>	117.24%	108.43%	115.84%	97.06%	96.92%
Net income per share (basic and diluted) <sup>4</sup>	\$ 0.166	\$ –	\$ 0.339	\$ –	\$ 0.646
Dividends per share:					
Class A	\$ –	\$ 0.189	\$ –	\$ 0.378	\$ 0.630
Class B	\$ –	\$ 0.201	\$ –	\$ 0.402	\$ 0.670
Common	\$ 0.201	\$ –	\$ 0.402	\$ –	\$ 0.134
<b>MORTGAGE INVESTMENTS INFORMATION <sup>3</sup></b>					
Net mortgage investments	\$ 327,509	\$ 354,272	\$ 327,509	\$ 354,272	\$ 317,154
Total number of net mortgage investments	88	91	88	91	96
Average net mortgage investment	\$ 3,722	\$ 3,893	\$ 3,722	\$ 3,893	\$ 3,304
Weighted average interest rate	9.48%	9.83%	9.48%	9.83%	9.81%
Average lender fee	1.06%	2.72%	1.07%	2.18%	1.83%
Turnover ratio	36.30%	15.78%	51.13%	43.23%	79.76%

1 Targeted dividend yield equals the monthly average 2-Year Government of Canada Bond Yield plus 550 basis points.

2 Actual dividend yield equals the total per share dividend for the stated period for Class A shares and common shares divided by the trading close price at the stated period end (annualized).

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

4 The Company has not disclosed net income (loss) per share for the three and six months ended June 30, 2013 as the Company did not have equity instruments, as defined in IAS 33, *Earnings per Share* as the redeemable shares were classified as a financial liability in the statements of financial position.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## For the three months ended June 30, 2014 ("Q2 2014") and June 30, 2013 ("Q2 2013")

- The Company funded 19 new net mortgage investments (Q2 2013 – 14) totaling \$104.7 million (Q2 2013 – \$34.7 million), had additional advances on existing mortgage investments totaling \$10.4 million (Q2 2013 – \$21.4 million) and received full repayments on 27 mortgage investments (Q2 2013 – 7) and partial pay downs totaling \$126.5 million (Q2 2013 – \$56.0 million), resulting in net mortgage investments of \$327.5 million as at June 30, 2014 (March 31, 2013 – \$339.0 million). Of the repayments received during Q2 2014, \$62.2 million was received on June 27, 2014. This represents approximately 50% of the total repayments received throughout Q2 2014.
- Net interest income earned by the Company was \$9.5 million (Q2 2013 – \$9.4 million), an increase of \$0.1 million, or 0.7%, from Q2 2013.
- The Company received non-refundable lender fees of \$1.1 million (Q2 2013 – \$0.9 million) or 1.1% (Q2 2013 – 2.7%) of new net mortgage investments funded during Q2 2014.
- The Company generated income from operations of \$7.4 million (Q2 2013 – \$6.7 million), an increase of \$0.7 million, or 10.6%, from Q2 2013. The increase is mostly attributed to an approximately \$0.6 million decrease in expenses from Q2 2013 relating to the removal of the requirement to pay trailer fees after the Transition and no provision for mortgage investments loss.
- The Company declared dividends of \$0.201 per common share for a total of \$8.2 million (Q2 2013 – nil; nil). During Q2 2013, the Company declared dividends of \$0.189 per Class A share for a total of \$6.6 million and \$0.201 per Class B share for a total of \$0.7 million. Since inception, the dividends have exceeded the Company's targeted dividend yield of the 2-Year Government of Canada Bond Yield ("2-Yr GOC Yield") plus 550 basis points.
- On April 24, 2014, the Company closed on a public offering of 3,737,500 common shares, including exercising the over-allotment option, at a price of \$9.35 per share. The Company received net proceeds of \$33.1 million.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## For the six months ended June 30, 2014 ("the Period" or "YTD 2014") and June 30, 2013 ("YTD 2013")

- The Company funded 30 new net mortgage investments (YTD 2013 – 34) totaling \$166.4 million (YTD 2013 – \$104.1 million), had additional advances on existing mortgage investments totaling \$20.9 million (YTD 2013 – \$34.9 million) and received full repayments on 38 mortgage investments (YTD 2013 – 20) and partial pay downs totaling \$172.7 million (YTD 2013 – \$153.0 million), resulting in net mortgage investments of \$327.5 million as at June 30, 2014 (December 31, 2013 – \$317.2 million).
- Net interest income earned by the Company was \$18.3 million (YTD 2013 – \$19.9 million), a decrease of \$1.6 million, or 8.24%, from YTD 2013. The decrease over YTD 2013 is mainly due to a lower net mortgage investments portfolio.
- The Company received non-refundable lender fees of \$1.8 million (YTD 2013 – \$2.3 million) or 1.1% (YTD 2013 – 2.2%) of new net mortgage investments funded during the Period. The decrease from YTD 2013 is mainly related to additional availability of capital in the market, which has led to lower lender fees.
- The Company generated income from operations of \$14.2 million (YTD 2013 – \$14.4 million), a decrease of \$0.2 million, or 1.1%, from YTD 2013. The decrease was mainly due to the decrease in net interest income noted above which was mainly offset by a decrease in expenses relating to no trailer fees paid in 2014 and a lower provision for mortgage investments loss in 2014.
- The Company declared dividends of \$0.402 per common share for a total of \$15.6 million (YTD 2013 – nil; nil). During YTD 2013, the Company declared dividends of \$0.378 per Class A share for a total of \$13.1 million and \$0.402 per Class B share for a total of \$1.5 million. The dividends exceeded the Company's targeted dividend yield of the 2-Year Government of Canada Bond Yield ("2-Yr GOC Yield") plus 550 basis points.
- The Board of Directors appointed Andrew Jones as Chief Executive Officer of the Company, effective January 20, 2014, to replace Blair Tamblyn. Blair Tamblyn remains as Chairman of the Board of Directors.
- On February 25, 2014, the Company completed a public offering of \$30.0 million, with an over-allotment option of \$4.5 million that was completed on March 3, 2014, of 6.35% convertible unsecured subordinated debentures for net proceeds of \$32.6 million (the "debentures").
- The Board of Directors appointed David Melo as Chief Financial Officer of the Company, effective March 25, 2014, to replace Ugo Bizzarri. Ugo Bizzarri was elected to the Board of Directors as part of the Transition.
- On April 24, 2014, the Company closed on a public offering of 3,737,500 common shares, including exercising the over-allotment option, at a price of \$9.35 per share. The Company received net proceeds of \$33.1 million.

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## ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

### Distributable income

	Three months ended June 30, 2014	Six months ended June 30, 2014	Year ended December 31, 2013
Net income and comprehensive income	\$ 6,597	\$ 12,993	\$ 507
Less: amortization of lender fees	(972)	(1,950)	(4,266)
Add: one-time Transition related costs	–	–	3,530
Add: lender fees received during the period	1,106	1,775	3,633
Add: amortization of financing costs, credit facility	31	63	144
Add: amortization of financing costs, debentures	89	113	–
Add: accretion expense, debentures	29	39	–
Add: issuance cost of redeemable shares	–	–	3
Add: net operating loss from foreclosed properties held for sale	97	194	182
Add: provision for mortgage investments loss	–	250	2,150
Add: dividends to holders of redeemable shares	–	–	24,321
<b>Distributable income</b>	<b>6,977</b>	<b>13,477</b>	<b>30,204</b>
Less: Dividends to holders of redeemable shares	–	–	(24,321)
Less: Dividends to common shareholders	(8,181)	(15,611)	(4,953)
<b>(Over) / under distributions</b>	<b>\$ (1,204)</b>	<b>\$ (2,134)</b>	<b>\$ 930</b>
Payout ratio	117.24%	115.84%	96.92%
Turnover ratio	36.30%	51.13%	79.76%

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

The Board of Directors have set a dividend policy that is predicated on what they believe to be a long-term sustainable objective, which is to only pay-out cash flow generated by net mortgage investments. A number of factors are assessed and evaluated each time the Board of Directors reviews, and approves dividends. As noted earlier in the 'Recent Developments and Outlook' sections, both the Manager and the Board of Directors remain very comfortable with the sustainability of the business.

# Management's Discussion and Analysis

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During Q2 2014, the Company advanced \$104.7 million on 19 new mortgage investments, one of the largest quarters in our history, while effectively deploying the cash raised from the debentures and common share offering. In addition, the Company received significant repayments totaling \$126.5 million, also one of the largest in any one quarter, a testament to the quality of the mortgage investments in the portfolio. These larger than normal repayments caused cash drag on the portfolio, resulting in the over distribution to date. In July 2014, the Company announced a reduction to its monthly dividend from \$0.067 per share to \$0.060 per share. The reduction in the dividend will allow the Company to reduce the shortfall from the current interest rate environment without compromising the credit quality of the portfolio.

## Statements of income and comprehensive income

	Three months ended June 30,			Six months ended June 30,		
	2014	2013	% Change	2014	2013	% Change
Net interest income	\$ 9,465	\$ 9,397	0.7%	\$ 18,276	\$ 19,917	(8.2%)
Expenses	(2,049)	(2,690)	23.8%	(4,060)	(5,540)	26.7%
Income from operations	7,416	6,707	10.6%	14,216	14,377	(1.1%)
Net operating loss from foreclosed properties held for sale	(97)	–	(100.0%)	(194)	–	(100.0%)
Financing costs:						
Interest on credit facility	(57)	(91)	37.2%	(121)	(181)	33.1%
Interest on convertible debentures	(664)	–	(100.0%)	(908)	–	(100.0%)
Dividends to holders of redeemable shares	–	(7,311)	100.0%	–	(14,608)	100.0%
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 6,598</b>	<b>\$ (695)</b>	<b>1,048.9%</b>	<b>\$ 12,993</b>	<b>\$ (412)</b>	<b>3,244.9%</b>

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## Net interest income<sup>1</sup>

For the three months and six months ended June 30, 2014, the Company earned net interest income of \$9.5 million and \$18.3 million respectively. (Q2 2013 – \$9.4 million; YTD 2013 – \$19.9 million). Net interest income is made up of the following:

### (a) Interest income

For the three months and six months ended June 30, 2014, the Company earned \$8.4 million and \$16.1 million (Q2 2013 – \$8.6 million; YTD 2013 – \$17.6 million) in interest income on the net mortgage investments. The decrease over the same periods last year is mainly related to a smaller net mortgage investment portfolio.

The weighted average interest rate on the net mortgage investments slightly decreased over the Period, from 9.81% at December 31, 2013 to 9.48% at June 30, 2014, mainly due to increased competition faced during Q2 2014, placing modest downward pressure on lending rates.

### (b) Lender fee income

During the three months and six months ended June 30, 2014, the Company received non-refundable lender fees of \$1.1 million and \$1.8 million (Q2 2013 – \$0.9 million; YTD 2013 – \$2.3 million), or 1.1% and 1.1% (Q2 2013 – 2.7%; YTD 2013 – 2.2%) of new mortgage investments funded in the Period. These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to interest income. For the three months and six months ended June 30, 2014, \$1.0 million and \$2.0 million (Q2 2013 – \$0.8 million; YTD 2013 – \$2.3 million) of non-refundable lender fees were amortized to lender fee income. The lender fees generated by the Company continue to be a significant component of income resulting from mortgage investment turnover. The lower amount of lender fees generated in the Period compared to YTD 2013 was primarily driven by an increase in the availability of capital in the market. The Manager does not retain any portion of the lender fees, unlike other competing MICs, ensuring management interests are aligned with the Company.

### (c) Other income

For the three months and six months ended June 30, 2014, the Company earned \$0.1 million and \$0.2 million (Q2 2013 – \$0.01 million; YTD 2013 – \$0.08 million) in other income. Other income includes fees earned on mortgage investment fundings, prepayment penalties and exit fees earned on mortgage investment repayments and other miscellaneous fees.

## Expenses

For the three months and six months ended June 30, 2014, the Company's expense ratio was 2.4% and 2.3% (Q2 2013 – 2.6%; YTD 2013 – 2.7%), including a fixed expense ratio of 1.8% and 1.8% (Q2 2013 – 2.0%; YTD 2013 – 2.0%). The decrease in the ratio is primarily driven by the removal of trailer fees, which was offset by the lower average net mortgage investment portfolio in 2014.

<sup>1</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.

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## Management fees

### (a) Management fees

As part of the Transition, the Company has entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. Under the new management agreement, the Company pays the Manager an annual management fee of 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets are calculated 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.

For the three months and six months ended June 30, 2014, the Company incurred management fees of \$1.4 million and \$2.6 million (Q2 2013 – \$1.2 million; YTD 2013 – \$2.5 million).

### (b) Performance fees

Under the new management agreement, the Manager continues to be entitled to a performance fee. In any calendar year where the Company has 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, the Manager is entitled to receive from the Company a performance fee equal to 20% of the net earnings of the Company available to distribute over the Hurdle Rate. The net earnings of the Company shall mean the net income before performance fees of the Company in accordance with applicable accounting principles and adjusted for certain other non-cash adjustments as defined in the management agreement.

For the three months and six months ended June 30, 2014, the Company accrued performance fees of \$0.5 million and \$0.8 million (Q2 2013 – \$0.5 million; YTD 2013 – \$1.2 million). The Hurdle Rate for the Period was 5.54% (YTD 2013 – 5.56%).

## Trailer fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay trailer fees to the brokers effective for the quarter ended September 30, 2013. Prior to September 30, 2013, the Company paid each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. As such, the Company paid no trailer fees during the Q2 2014 and YTD 2014 (Q2 2013 – \$0.4 million; YTD 2013 – \$0.7 million).

## General and administrative

In Q2 2014 and the Period, the Company incurred general and administrative expenses of \$0.2 million and \$0.4 million (Q2 2013 – \$0.2 million; YTD 2013 – \$0.4 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees and other operating costs associated with operating the Company and administration of the mortgage investment portfolio.

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## Interest on credit facility

Financing costs include interest paid on amounts drawn on the credit facility, stand-by 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 2014 and YTD 2014 relating to the credit facility were \$57 and \$121 respectively (Q2 2013 – \$91; YTD 2013 – \$181).

## Interest on convertible debentures

During Q1 2014, the Company issued \$34.5 million of 6.35%, convertible unsecured subordinated debentures (the "debentures"). The debentures mature on March 31, 2019 and interest is payable semi-annually on March 31 and September 30 of each year. The first interest payment will occur on September 30, 2014. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For Q2 2014 and YTD 2014, interest on the debentures of \$0.7 million and \$0.9 million (Q2 2013 – nil; YTD 2013 – nil), is included in financing costs and is made up of the following:

	Three months ended June 30, 2014	Six months ended June 30, 2014
Accrued interest on the debentures	\$ 546	\$ 756
Amortization of issue costs	89	113
Accretion of equity component of the debentures	29	39
	<b>\$ 664</b>	<b>\$ 908</b>

## Dividends to holders of common shares and redeemable shares

The Company intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month. Below is a summary of the dividends to holders of common shares and holders of redeemable shares.

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Dividends per share	Total	Dividends per share	Total
Common	\$ 0.201	\$ 8,181	\$ 0.402	\$ 15,611

	Three months ended June 30, 2013		Six months ended June 30, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.189	\$ 6,576	\$ 0.378	\$ 13,138
Class B	0.201	735	0.402	1,470
Total		7,311		14,608

The actual dividend yield for the Period of 8.52% (YTD 2013 – 8.23%) on common shares is in excess of the Company's targeted dividend yield of 6.54% (YTD 2013 – 6.57%).

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## STATEMENT OF FINANCIAL POSITION

### Net Mortgage investments

The balance of net mortgage investments is as follows:

	June 30, 2014	December 31, 2013	Change
Gross mortgage investments, including mortgage syndications	\$ 437,936	\$ 442,166	\$ (4,230)
Mortgage syndications liabilities	(109,128)	(124,379)	15,251
	328,808	317,787	11,021
Interest receivable	(4,881)	(4,691)	(190)
Unamortized lender fees	3,333	3,508	(175)
Provision for mortgage investment loss	250	550	(300)
<b>Net mortgage investments</b>	<b>\$ 327,510</b>	<b>\$ 317,154</b>	<b>\$ 10,356</b>

The Company funded 30 new net mortgage investments (YTD 2013 – 34) totaling \$166.4 million (YTD 2013 – \$104.1 million), had additional advances on existing mortgage investments totaling \$20.9 million (YTD 2013 – \$34.9 million) and received full repayments on 38 mortgage investments (YTD 2013 – 20) and partial pay downs totaling \$172.7 million (YTD 2013 – \$153.0 million), resulting in net mortgage investments of \$327.5 million as at June 30, 2014 (December 31, 2013 – \$317.2 million), or a portfolio turnover rate of 51.13% (YTD 2013 – 43.23%). As at June 30, 2014, the average net mortgage investment was approximately \$3.7 million (December 31, 2013 – \$3.3 million). Of the repayments received during the Period, \$62.2 million was received on June 27, 2014.

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. During the Period, the mortgage syndication liabilities have decreased to \$109.1 million (December 31, 2013 – \$124.4 million), as the Company received full repayments on several syndicated mortgage investments during the Period.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## Net mortgage investments portfolio allocation

As at June 30, 2014, the Company's mortgage investments portfolio is comprised of 88 mortgage investments (December 31, 2013 – 96) which were allocated across the following categories:

### (a) Security Position

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
First mortgages	68	56.6%	72	61.1%
Non-first mortgages	20	43.4%	24	38.9%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

The Company's allocation to first mortgages has changed moderately by 4.5% from December 31, 2013 to June 30, 2014. For the Period, the Company co-invested in several first mortgage investments with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") and holds subordinate mortgage positions in these co-investments in relation to TSMIC. The Company advanced larger than average individual mortgage positions over the Period, which resulted in a higher average mortgage investment of \$3,722 at June 30, 2014 (December 31, 2013 – \$3,304).

### (b) Region

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
ON	43	53.5%	47	51.4%
AB	8	6.9%	15	12.6%
QC	15	13.2%	14	13.7%
BC	9	11.9%	9	14.5%
SK	5	2.5%	5	3.3%
MB	4	7.2%	3	2.5%
OT	2	3.0%	2	1.1%
NS	1	0.8%	1	0.9%
NB	1	1.0%	0	0.0%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

The Company continues to maintain a diversified portfolio of net mortgage investments primarily across Canada, with its greatest concentration in Canada's largest provinces. As at June 30, 2014, 85.5% of the net mortgage investments (December 31, 2013 – 92.2%) were allocated across Ontario, Quebec, British Columbia and Alberta. The Company has continued to maintain significant exposure to Ontario as it is Canada's most populated province with the greatest number of metropolitan cities.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## (c) Maturity

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Maturing 2014	18	20.0%	38	32.0%
Maturing 2015	32	36.3%	41	51.3%
Maturing 2016	24	35.1%	16	15.1%
Maturing 2017	14	8.6%	1	1.6%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

The Company's portfolio turnover rate for the Period was at 51.13% (YTD 2013 – 43.23%). The Company's strong portfolio turnover helps generate fee income, all of which goes to the Company, and helps ensure the Company is able to respond quickly to a changing interest rate environment. The weighted average term to maturity as at June 30, 2014 is 2.2 years (December 31, 2013 – 2.2 years), in-line with the portfolio's target maturity of 1.5 – 3.0 years.

## (d) Asset Type

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Multi-residential	38	46.0%	36	51.7%
Office	12	10.7%	15	13.6%
Retail	14	22.5%	14	13.2%
Retirement	5	10.6%	8	12.5%
Industrial	6	2.2%	7	1.8%
Unimproved land	6	5.4%	6	4.1%
Other-residential	3	0.8%	4	0.9%
Hotels	1	1.3%	2	1.2%
Self-storage	1	0.3%	2	0.7%
Single-family residential	2	0.2%	2	0.3%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

The Company has developed a lending niche predominantly targeting short-term mortgages, secured by cash-flowing assets, while specializing in multi-residential real estate assets. Historically, the Company has had very little exposure to land development, single-family residential, construction mortgages and construction loans, where demand is largely impacted by the strength or weakness of the Canadian housing market. Overall, there were no significant changes to the portfolio's composition in the Period. The slight reduction in the portfolio's

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

exposure to multi-residential was a timing difference relating to the large repayment received at the end of Q2 2014.

## (e) Interest Rate

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
9.99% or lower	49	66.5%	47	59.3%
10.00%–10.99%	25	24.6%	23	22.7%
11.00%–11.99%	9	5.5%	17	12.3%
12.00%–12.99%	2	0.3%	4	2.8%
13.00%–13.99%	1	0.1%	3	0.3%
14.00% or greater	2	3.0%	2	2.6%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

The weighted average interest rate, which does not include lender fee income, on the mortgage investments at June 30, 2014 was 9.48% (December 31, 2013 – 9.81%). Although the weighted average interest rate has decreased over the Period, it is still significantly greater than the Company's target dividend for the Period of 6.54% (December 31, 2013 – 6.61%), equal to the 2-Yr GOC Yield plus 550 basis points, while providing sufficient margin for operating expenses of the Company.

## (f) Loan-to-value

	June 30, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
55% or less	24	12.8%	26	15.1%
56%–60%	6	5.3%	6	3.0%
61%–65%	9	14.6%	9	5.1%
66%–70%	10	11.2%	11	9.8%
71%–75%	9	12.0%	10	13.1%
76%–80%	13	12.2%	13	19.1%
81%–85%	17	31.9%	21	34.8%
	<b>88</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

As at June 30, 2014, the average loan-to-value was 61.7% (December 31, 2013 – 61.1%) whereas the weighted average loan-to-value on the mortgage investment portfolio was 69.2% (December 31, 2013 – 70.8%), well below the AAM's ceiling of 85%.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## Foreclosed properties held for sale

During the Period, the Company foreclosed on one property (YTD 2013 – nil) and reclassified the carrying amount of the outstanding principal, interest receivable and related impairment provision on the underlying security, as of the dates of foreclosure, to foreclosed properties held for sale. The fair value of the foreclosed properties held for sale as at June 30, 2014 is \$15.4 million (December 31, 2013 – \$11.4 million). During the Period, the Company closed on the sale of two residential units from one of the foreclosed properties for net proceeds of \$339 (YTD 2013 – nil).

## Allowance for mortgage investments loss

As at June 30, 2014, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investments. 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 assessed them for impairment using a statistical model. Based on the amounts determined by the analysis, the Company will use judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. For the Period, the Company has recognized a collective provision for mortgage investments loss of \$0.3 million (YTD 2013 – \$0.8 million).

## Net working capital

Net working capital increased by \$48.4 million to \$60.4 million at June 30, 2014 from \$12.0 million at December 31, 2013, mainly due to significant mortgage repayments on June 27, 2014 of \$62.2 million. The Company expects to redeploy this idle cash in the next 30 to 90 days.

## Credit facility

The Company has available a credit facility with a limit of \$25.0 million (December 31, 2012 – \$25.0 million). The credit facility is primarily used to bridge timing differences between new mortgage advances and repayments or follow-on equity offerings to reduce cash drag. The credit facility expires in October 2014 and is subject to an interest rate equal to the bank's prime rate of interest plus 1.5% (December 31, 2013 – bank's prime rate of interest plus 1.5%). The credit facility is secured by a general security agreement over the Company's assets. As at June 30, 2014, no amount was outstanding on the credit facility (December 31, 2013 – nil).

Interest paid related to the credit facility is amortized to financing costs using the effective interest rate method. During the three and six months ended June 30, 2014, interest on the credit facility of \$57 and \$121 (Q2 2013 – \$91; YTD 2013 – \$181) mainly relates to standby fees paid on the credit facility and amortization of financing costs incurred on the placement of the credit facility.

As at June 30, 2014, there were \$49 (December 31, 2013 – \$108) in unamortized financing costs related to the credit facility. For the Period, the Company has amortized financing costs of \$63 (YTD 2013 – \$78) to interest expense using the effective interest rate method.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## Convertible debentures

On February 25, 2014, the Company completed a public offering of \$30.0 million, with an over-allotment option of \$4.5 million that was completed on March 3, 2014, of 6.35% convertible unsecured subordinated debentures for net proceeds of \$32.6 million (the "debentures"). The debentures mature on March 31, 2019 and interest is payable semi-annually on March 31 and September 30 of each year. The Company believes that a modest amount of structural leverage coupled with increased borrowing under the credit facility is accretive to net earnings, while still maintaining a low risk profile. Overall, total leverage including the maximum credit facility amount plus the convertible debenture equates to approximately 15% of total assets, an amount we believe is conservative. The first interest payment will occur on September 30, 2014. 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.

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 of \$0.6 million has been recorded as equity, with the remaining \$32.0 million 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.

The debentures are allocated as follows at Period end:

	<b>June 30, 2014</b>
Issued	\$ 34,500
Issue costs, net of amortization	(1,806)
Equity component	(578)
Issue costs attributed to equity component	32
Accretion for the period	39
<b>Debentures, end of period</b>	<b>\$ 32,187</b>

## Net assets attributable to holders of redeemable shares

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem the shares for cash or another financial asset, to be classified as a financial liability. Prior to the Transition, the Company's Class A and Class B shares did not meet the criteria in IAS 32 for classification as equity and therefore, were classified as financial liabilities. In addition, the dividends and issuance costs related to these shares were also presented as financing costs in the statement of net income and comprehensive income. Subsequent to the Transition, as described in the "Transition to Public Company Regime" section of this MD&A, Class A and Class B shares were exchanged into common shares and are classified as shareholders' equity.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## Dividend reinvestment plan

As part of the Transition, the Company has amended and restated its dividend reinvestment plan ("DRIP") effective as of November 20, 2013. The amended and restated DRIP (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on May 19, 2010. In the Period, 161,725 (YTD 2013 – 160,645 Class A shares issued from treasury and 37,268 Class A shares acquired from the market, under the Original DRIP) common shares were issued under the Amended DRIP and were acquired from the market.

## Common shares

The Company is authorized to issue an unlimited number of common shares. The holders of common shares 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 shall be entitled to receive dividends as and when declared by the Board of Directors.

The common shares are classified as equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

On April 24, 2014, the Company closed on a public offering for 3,737,500 common shares, including exercising the overallotment option, at a price of \$9.35 per common share. The Company received gross proceeds of \$34,946. In connection with the above-noted share offering, the Company incurred \$1,885 in issuance costs. There were no equity offerings during the six months ended June 30, 2013.

The changes in the number of common shares during the Period were as follows:

### Six months ended June 30, 2014

Common shares outstanding, beginning of period	36,964,028
Issued	3,737,500
Repurchased	(161,725)
Issued under dividend reinvestment plan	161,725
<b>Common shares outstanding, end of period</b>	<b>40,701,528</b>

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## QUARTERLY FINANCIAL INFORMATION

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

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Net interest income	\$ 9,465	\$ 8,811	\$ 9,926	\$ 9,889	\$ 9,397	\$ 10,520	\$ 9,831	\$ 10,200
Expenses	(2,049)	(2,011)	(3,082)	(5,622)*	(2,690)	(2,851)	(3,481)	(2,173)
Income from operations	7,416	6,800	6,844	4,267	6,707	7,669	6,350	8,027
Net operating loss from FPHFS	(97)	(97)	(182)	-	-	-	-	-
Financing costs:								
Interest on credit facility	(57)	(64)	(195)	(98)	(91)	(90)	(91)	(87)
Interest on convertible debentures	(664)	(243)	-	-	-	-	-	-
Issuance costs of redeemable shares	-	-	(3)	-	-	-	(10)	59
Dividends to holders of redeemable shares	-	-	(2,414)	(7,299)	(7,311)	(7,297)	(7,278)	(7,263)
	(721)	(307)	(2,612)	(7,397)	(7,402)	(7,387)	(7,379)	(7,291)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 6,598</b>	<b>\$ 6,396</b>	<b>\$ 4,050</b>	<b>\$ (3,130)</b>	<b>\$ (695)</b>	<b>\$ 282</b>	<b>\$ (1,029)</b>	<b>\$ 736</b>

\* Includes one-time costs of \$3,373 relating to the Transition.

The variations in net income (loss) and comprehensive income (loss) 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 less-predictable 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 basis. Should any material changes or events in the business occur, the Company would adjust dividends accordingly during the year.
- (ii) We note a significant one-time expense in Q3 2013 of \$3.4 million relating to the Transition. In addition, 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 quarter (mainly relating to lender fees) will typically have an impact on the amount expensed.
- (iii) The dividends to holders of redeemable shares and issuance costs relating to redeemable shares were presented in the statement of income (loss) and comprehensive income (loss) until October 2013 and the dividends to common shareholders are now presented in the statement of changes in equity from the Exchange Date onwards.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## RELATED PARTY TRANSACTIONS

As at June 30, 2014, due to Manager includes management and performance fees payable of \$1,248 (December 31, 2013 – \$2,347) and \$11 (December 31, 2013 – \$3) related to costs incurred by the Manager on behalf of the Company.

As at June 30, 2014, the Company, Timbercreek Global Real Estate Fund ("TGREF") and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), related parties by virtue of common management, have co-invested in four (December 31, 2013 – three) mortgage investments amounting to \$29,374 (December 31, 2013 – \$21,210). Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manger, has been retained by TGREF and T4Q to provide fund management and portfolio advisory services.

As at June 30, 2014, the Company and TSMIC, a related party by virtue of common management, have co-invested in several mortgage investments, totaling \$535,851 (December 31, 2013 – \$681,961), which are secured primarily by multi-residential, office, retail, retirement and other commercial properties. The Company holds subordinated positions in these co-investments in relation to TSMIC. The Company's share in these investments is \$165,195 (December 31, 2013 – \$216,000), and included in this amount is a mortgage investment of \$1,075 (December 31, 2013 – \$1,044) to a limited partnership, which is co-owned by T4Q. In addition, \$5 (December 31, 2013 – \$281) is receivable by the Company from TSMIC relating to amounts paid by the Company on behalf of TSMIC.

As at June 30, 2014, included in other assets is \$2,167 (December 31, 2012 – \$1,040) of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., the Company's mortgage servicing and administration provider and controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid interest received from the borrowers.

As a measure of effective corporate governance, and in accordance with the corporate governance committee charter, each related party transaction that represents a conflict of interest for an independent board member is reviewed by the governance committee and, if necessary, the independent directors of the Company as a whole (other than the conflicted director), to determine the effect, if any, on the director's independence. During the three and six months ended June 30, 2014, no such matters were reviewed.

## COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages 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.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## CRITICAL ACCOUNTING ESTIMATES

In the preparation of the 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 these consolidated financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated 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: 1) payment default by a borrower; 2) whether security of the mortgage has been negatively impacted by some event; and 3) 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.

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).

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

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.

## CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Company in the condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

### (a) Convertible debentures:

The convertible debentures are a compound financial instrument as it contains both a liability and an equity component.

At the date of issuance, the liability component of convertible debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible debenture is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised or, if unexercised, at maturity.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

### (b) Changes in accounting policies

#### (i) IFRS 7, Financial Instruments: Disclosures ("IFRS 7"):

In December 2011, the IASB published Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) and issued new disclosure requirements in IFRS 7, with the amendments applied retrospectively. The implementation of these standards had no impact on the condensed consolidated interim financial statements.

#### (ii) Levies:

In 2013, the International Accounting Standards Board (IASB) issued IFRIC 21, "Levies" ("IFRIC 21"). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets" ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The implementation of this standard had no impact on the condensed consolidated interim financial statements.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## (c) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing the 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) IFRS 9, Financial Instruments (IFRS 9):

On July 24, 2014, the IASB issued IFRS 9, *Financial Instruments*. This new standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* and addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the four categories of financial assets as required by IAS 39 with two measurement categories as follows: (i) those measured at fair value; and (ii) those measured at amortized cost. Changes in fair value will be recorded in net earnings under IFRS 9 instead of through OCI under IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in OCI instead of through net earnings unless this would create an accounting mismatch. The standard will be effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively with some exemptions. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

### (ii) IFRS 15, Revenue from Contracts with Customers (IFRS 15):

In May 2014, the IASB issued IFRS 15. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

## OUTSTANDING SHARE DATA

As at August 11, 2014, the Company's authorized capital consists of an unlimited number of common shares, of which 40,701,528 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. During the Period, the Company added the debentures to the capital structure of the Company to complement the common shares and credit facility. The Company believes that a modest amount of structural leverage gained from the debentures is accretive to net earnings, while having a low impact on the risk profile of its business.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

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 intends to qualify as a MIC as defined under Section 130.1(6) of the Income Tax Act (Canada) 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, equity and debt offerings and the credit facility. The Company routinely forecasts cash flow sources and requirements to ensure cash is efficiently utilized. The Company has the borrowing ability of \$25.0 million through its credit facility and seeks to manage the fluctuations in cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs.

The following are the contractual maturities of financial liabilities as at June 30, 2014, including expected interest payments:

	Carrying values	Contractual cash flows	Within a year	Following year	2–5 years	Over 5 years
Mortgage funding holdbacks	\$ 19	\$ 19	\$ 19	\$ –	\$ –	\$ –
Dividends payable	2,727	2,727	2,727	–	–	–
Due to Manager	1,259	1,259	1,259	–	–	–
Prepaid mortgage interest	2,149	2,149	2,149	–	–	–
Accounts payable and accrued expenses	1,230	1,230	1,230	–	–	–
Convertible debentures	32,187	44,908	2,191	2,197	40,520	–
Unadvanced mortgage commitments	–	20,497	20,497	–	–	–
	<b>\$ 39,571</b>	<b>\$ 72,789</b>	<b>\$ 30,072</b>	<b>\$ 2,197</b>	<b>\$ 40,520</b>	<b>\$ –</b>

As at June 30, 2014, the Company's cash position was \$59.4 million (December 31, 2013 – \$12.3 million) including an undrawn credit facility of \$25.0 million (December 31, 2013 – \$25.0 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.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

	Classification	Measurement
<b>Financial assets</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Mortgage investments, including mortgage syndications	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Due to Manager	Other financial liabilities	Amortized cost
Mortgage funding holdbacks	Other financial liabilities	Amortized cost
Prepaid mortgage interest	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost

The fair values of cash and cash equivalents, other assets, accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks and prepaid mortgage interest approximate their carrying amounts due to their short-term nature.

The fair value of mortgage investments and mortgage syndication liabilities approximate to their carrying values 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 debentures approximate to their carrying value given the proximity of the issuance of the debentures to period end.

The Company's use of financial instruments exposes the Company to various related risks which are outlined in note 17 of the consolidated financial statements of the Company for the year ended December 31, 2013. There were no significant changes in risks during the Period.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## 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, and not having adequate sources of bank financing available.

For a full discussion of the risks and uncertainties, please also refer to the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2013.

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

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO on a timely basis, so that appropriate decisions can be made regarding public disclosures.

The preparation of this information is supported by a set of disclosure controls and procedures ("DC&P's") implemented by management. In fiscal 2013, these controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of the design and operation of DC&P's as at December 31, 2013. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Company and the requirements of National Instrument 52-109 of the Canadian Securities Administrators titled, 'Certification of Disclosure in Issuers' Annual and Interim Filings'.

There were no changes made to our DC&P during the three and six months ended June 30, 2014. The Company continues to review the design of DC&P's to provide reasonable assurance that material information relating to the Company is properly communicated to certifying officers responsible for establishing and maintaining DC&P's, as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings as at December 31, 2013. The Company confirmed the effectiveness of the design of Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information the Company may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business.

As at December 31, 2013, the Company confirmed the effectiveness of the design of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information. The Company may, from time-to-time, make changes aimed at enhancing its effectiveness and ensuring that our systems evolve with the changing needs. The design of ICFR are reviewed and updated, if necessary, to ensure they remain effective to provide reasonable assurance regarding the reliability of financial statements and information. There were no changes made in our ICFR during the three and six months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, our ICFR.

# Management's Discussion and Analysis

For the three months and six months ended June 30, 2014

## ADDITIONAL INFORMATION

### Phone

Calling the Company at 1-866-898-8868, Carrie Morris, Managing Director Capital Markets & Corporate Communications.

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 306-9967 ext. 7266 (collect if long distance).

### Internet

Visiting SEDAR at [www.sedar.com](http://www.sedar.com); or

### Mail

Writing to the Company at:

Timbercreek Mortgage Investment Corporation  
Attention: Corporate Communications  
1000 Yonge Street, Suite 500  
Toronto, Ontario M4W 2K2