

Management's Discussion and Analysis

# Timbercreek Mortgage Investment Corporation

For the three and six months ended June 30, 2015



# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## 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. 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 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 10, 2015. 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.timbercreekmic.com](http://www.timbercreekmic.com). Additional information about the Company, including its AIF, can be found at [www.sedar.com](http://www.sedar.com).

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## BUSINESS OVERVIEW

Timbercreek Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 1000 Yonge Street, Suite 500, Toronto, Ontario M4W 2K2. The Company is incorporated under the laws of the Province of Ontario by articles of incorporation dated April 30, 2008. The common shares of the Company are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol 'TMC'.

The Company invests in mortgage investments selected and determined to be high quality by the Manager. 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").

The fundamental investment objectives of the Company are to (i) preserve shareholder capital of the Company and (ii) provide shareholders with a stable stream of monthly dividends. The Company intends to meet its investment objectives by investing in a diversified portfolio of mortgage investments, consisting primarily of conventional mortgage investments secured directly by multi-residential, retirement, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

The Company has entered into a management agreement with Timbercreek Asset Management Inc. (the "Manager") dated September 13, 2013. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services to the Company.

## BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three and six months ended June 30, 2015 ("Q2 2015" and "YTD 2015", respectively). This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the three and six months ended June 30, 2015 and 2014 and the consolidated financial statements for the years ended December 31, 2014 and 2013, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), as applicable to interim financial statements, including International Accounting Standards ("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).

## NON-IFRS MEASURES

The Company prepares and releases 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.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

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.

- 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;
- 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; and
- Leverage – represents the 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 stated period;
- Weighted average lender fees – 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;
- Targeted dividend yield – represents the average 2-Year Government of Canada Bond Yield for the stated period plus 550 basis points;
- Actual dividend yield – represents the annualized total per share dividend for common shares divided by the trading close price as at the reporting date;
- Expense ratio – represents total expenses (excluding financing costs, net operating (gain) loss on foreclosed properties held for sale ("FPHFS"), fair value adjustment on FPHFS and provision for mortgage investments loss) 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 – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## RECENT DEVELOPMENTS AND OUTLOOK

The Company's portfolio of mortgage investments has continued to perform very well through the second quarter and the focus has remained on investing in high-quality loans primarily secured by income-producing real estate.

While turnover in the portfolio was strong over the quarter, the Company's strategy of having the credit facility consistently drawn has allowed the Company to absorb significant repayments and continue to generate income that exceeded distributions to shareholders over the quarter. As at June 30, 2015, the credit facility was drawn by \$6.3 million and the Company expects to increase utilization of the facility over the coming weeks.

Risk management remains one of our top priorities, and as at June 30, 2015, 86.3% of the Company's portfolio was secured by properties with existing rental income of which 61% was secured by multi-residential real estate. We continue to target cash-flowing properties where there is income to service the interest payments and where we believe there is better liquidity. At the same time, allocation to loans secured by unimproved land was limited to 6% of the portfolio. Although we are seeing more opportunities in Alberta as a result of the restriction of capital in that market, we continue to be cautious and have not yet increased our exposure to that market. Allocation to Alberta remains at a low 6%.

Although the commercial real estate lending market has not had any material change in the amount of capital and of new competition in general, there has been some modest pressure on rates following the end of the second quarter creating a slightly more competitive environment. The recent reduction in the overnight rate by the Bank of Canada has led to the short-duration bond yields falling back down to the levels previously seen at the end of last year, which has enabled many term debt lenders to offer slightly lower interest rates. We believe however, that this should only have a mild impact on the segment of the market where the Company competes, as floor rates by many of the lenders are becoming much more common, limiting the amount that the rates will drop. The weighted average interest rate for the period has remained flat, and the pressure on rates at this point has been marginal, so we are optimistic that performance through the third quarter will remain stable. Finally, the reduction in rates is partially offset by the reduction in borrowing costs associated with the Company's credit facility.

As a whole, we are pleased with the Company's momentum year-to-date, and expect this to carry through the third quarter.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## FINANCIAL HIGHLIGHTS

### FINANCIAL POSITION HIGHLIGHTS

As at	June 30, 2015	June 30, 2014	December 31, 2014
<b>KEY FINANCIAL POSITION INFORMATION</b>			
Mortgage investments, including mortgage syndications	\$ 682,982	\$ 437,936	\$ 616,174
Total assets	\$ 698,757	\$ 516,254	\$ 634,069
Credit facility	\$ 5,974	\$ -	\$ 8,837
Convertible debentures	\$ 32,634	\$ 32,187	\$ 32,387
Total liabilities	\$ 333,784	\$ 148,698	\$ 269,123
<b>CAPITAL STRUCTURE</b>			
Shareholders' equity	\$ 364,973	\$ 367,556	\$ 364,946
Convertible debentures, gross	\$ 34,500	\$ 34,500	\$ 34,500
Credit facility limit	\$ 60,000	\$ 25,000	\$ 35,000
Leverage <sup>1</sup>	9.9%	8.5%	10.5%
<b>COMMON SHARE INFORMATION</b>			
Number of common shares outstanding	40,664,128	40,701,528	40,701,528
Closing trading price	\$ 8.29	\$ 9.52	\$ 8.32
Market capitalization	\$ 337,106	\$ 387,479	\$ 338,637

### OPERATING RESULTS HIGHLIGHTS

	Three months ended		Six months ended		Year ended
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	December 31, 2014
Net interest income	\$ 11,532	\$ 9,465	\$ 22,028	\$ 18,276	\$ 36,710
Income from operations	\$ 9,051	\$ 7,416	\$ 17,308	\$ 14,216	\$ 28,272
Net income and comprehensive income	\$ 7,722	\$ 6,597	\$ 14,956	\$ 12,993	\$ 24,917
Earnings per share (basic and diluted)	\$ 0.19	\$ 0.17	\$ 0.37	\$ 0.34	\$ 0.63
Dividends to shareholders	\$ 7,321	\$ 8,181	\$ 14,645	\$ 15,611	\$ 30,263
Cash flow from operating activities	\$ 9,098	\$ 7,099	\$ 14,796	\$ 11,176	\$ 26,185
Distributable income	\$ 7,868	\$ 6,977	\$ 15,070	\$ 13,477	\$ 27,899
Distributable income per share (basic and diluted)	\$ 0.19	\$ 0.18	\$ 0.37	\$ 0.35	\$ 0.71
Targeted dividend yield <sup>1</sup>	6.12%	6.57%	6.10%	6.54%	6.55%
Actual dividend yield <sup>1</sup>	8.71%	8.47%	8.76%	8.52%	9.16%
Payout ratio <sup>1</sup>	93.1%	117.2%	97.2%	115.8%	108.5%
Dividends per common share	\$ 0.180	\$ 0.201	\$ 0.360	\$ 0.402	\$ 0.762

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

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## For the three months ended June 30, 2015 ("Q2 2015") and June 30, 2014 ("Q2 2014")

- The Company funded 16 new net mortgage investments (Q2 2014 – 19) totalling \$74.7 million (Q2 2014 – \$104.7 million), had additional advances on existing mortgage investments totalling \$3.8 million (Q2 2014 – \$10.4 million) and received full repayments on 17 mortgage investments (Q2 2014 – 27) and partial pay downs totalling \$124.5 million (Q2 2014 – \$126.5 million), resulting in net mortgage investments of \$393.2 million as at June 30, 2015 (March 31, 2015 – \$439.2 million), a decrease of 10.5% from March 31, 2015. Of the repayments received during Q2 2015, \$77.2 million was received in the month of June. This represents approximately 62% of the total repayments received throughout Q2 2015.
- Net interest income earned by the Company was \$11.5 million (Q2 2014 – \$9.5 million), an increase of \$2.0 million, or 21.8%, from Q2 2014. The increase over Q2 2014 is mainly due to an increase of over \$71 million in the average net mortgage investments portfolio during Q2 2015 relative to Q2 2014. This was facilitated by increased use of the credit facility during Q2 2015, to fund mortgage investments.
- The Company received non-refundable lender fees of \$1.4 million (Q2 2014 – \$1.1 million) or a weighted average lender fee of 1.7% (Q2 2014 – 1.1%). The increase is related to higher lender fees received on several new mortgage investments advanced in Q2 2015 relative to Q2 2014.
- The Company generated income from operations of \$9.1 million (Q2 2014 – \$7.4 million), an increase of \$1.7 million, or 22.0%, from Q2 2014. The increase in income from operations is mainly attributed to a larger average net mortgage investments portfolio during Q2 2015 relative to Q2 2014, as noted above, although partially offset by the increase in management and performance fees relative to Q2 2014.
- The Company generated net income and comprehensive income of \$7.7 million (Q2 2014 – \$6.6 million), an increase of \$1.1 million, or 17.1%, from Q2 2014, resulting in earnings per share of \$0.19 for Q2 2015 (Q2 2014 – \$0.17).
- The Board of Directors declared dividends to common shareholders of \$7.3 million (Q2 2014 – \$8.2 million), or \$0.180 (Q2 2014 – \$0.201) per share, which is consistent with previous quarter, while maintaining a payout ratio of less than 100%.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## For the six months ended June 30, 2015 ("YTD 2015") and June 30, 2014 ("YTD 2014")

- The Company funded 31 new net mortgage investments (YTD 2014 – 30) totalling \$131.2 million (YTD 2014 – \$166.4 million), had additional advances on existing mortgage investments totalling \$21.4 million (YTD 2014 – \$20.9 million) and received full repayments on 23 mortgage investments (YTD 2014 – 38) and partial pay downs totalling \$156.7 million (YTD 2014 – \$172.7 million), resulting in net mortgage investments of \$393.2 million as at June 30, 2015 (December 31, 2014 – \$397.3 million), a decrease of 1.0% from December 31, 2014. Of the total repayments of \$156.7 million in YTD 2015, \$77.2 million was received in June 2015. This represents approximately 49% of the total repayments received throughout YTD 2015.
- Net interest income earned by the Company was \$22.0 million (YTD 2014 – \$18.3 million), an increase of \$3.8 million, or 20.5%, from YTD 2014. The increase over YTD 2014 is mainly due to an over \$80 million greater average net mortgage investments portfolio during YTD 2015 relative to YTD 2014 with no idle cash and increased use of the credit facility during YTD 2015.
- The Company received non-refundable lender fees of \$2.2 million (YTD 2014 – \$1.8 million) or a weighted average lender fee of 1.4% (YTD 2014 – 1.1%). The increase is related to higher lender fees received on several new mortgage investments advanced in YTD 2015 relative to YTD 2014.
- The Company generated income from operations of \$17.3 million (YTD 2014 – \$14.2 million), an increase of \$3.1 million, or 21.7%, from YTD 2014. The increase in income from operations is attributed to a larger average net mortgage investments portfolio during YTD 2015 relative to YTD 2014 although partially offset by the increase in management and performance fees relative to YTD 2014.
- The Company generated net income and comprehensive income of \$15.0 million (YTD 2014 – \$13.0 million), an increase of \$2.0 million, or 15.1%, from YTD 2014, resulting in earnings per share of \$0.37 for YTD 2015 (YTD 2014 – \$0.34).
- The Board of Directors declared dividends to common shareholders of \$14.6 million (YTD 2014 – \$15.6 million), or \$0.360 (YTD 2014 – \$0.402) per share. 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.
- Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan (the "Plan") whereby, up to 100% of the compensation for a director may be paid in the form of deferred share units ("DSUs"). For YTD 2015, the directors, on average, have elected to receive 94% of their quarterly compensation in DSUs. For YTD 2015, 5,629 DSUs were issued and outstanding. As at June 30, 2015, the fair value of the outstanding DSUs amounted to \$47 and is included in accrued expenses.
- On January 30, 2015, the Company completed a \$15.0 million increase of the credit facility, taking its total available borrowing limit to \$50.0 million.
- On March 24, 2015, the Company executed the accordion feature of the credit facility, increasing the available borrowing limit to \$60.0 million.
- The Company acquired 37,400 common shares (YTD 2014 – nil) for cancellation under its normal course issuer bid at a cost of \$0.3 million (YTD 2014 – nil).

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

### Distributable income

	Three months ended		Six months ended		Year ended
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	December 31, 2014
Net income and comprehensive income	\$ 7,722	\$ 6,597	\$ 14,956	\$ 12,993	\$ 24,917
Less: amortization of lender fees	(1,644)	(972)	(2,707)	(1,950)	(4,437)
Add: lender fees received	1,426	1,106	2,204	1,775	5,820
Add: amortization of financing costs, credit facility	60	31	108	63	129
Add: amortization of financing costs, debentures	96	89	191	113	303
Add: accretion expense, debentures	28	29	56	39	96
Add: net operating loss from FPHFS	30	97	112	194	171
Add: fair value adjustments on FPHFS	150	–	150	–	650
Add: provision for mortgage investments loss	–	–	–	250	250
<b>Distributable income</b>	<b>7,868</b>	<b>6,977</b>	<b>15,070</b>	<b>13,477</b>	<b>27,899</b>
Less: Dividends	(7,321)	(8,181)	(14,645)	(15,611)	(30,263)
<b>(Over) / under distribution</b>	<b>\$ 547</b>	<b>\$ (1,204)</b>	<b>\$ 425</b>	<b>\$ (2,134)</b>	<b>\$ (2,364)</b>
Distributable income per share (basic and diluted)	\$ 0.19	\$ 0.18	\$ 0.37	\$ 0.35	\$ 0.71
Payout ratio	93.1%	117.2%	97.2	115.8%	108.5%
Turnover ratio	29.6%	36.3%	37.1%	51.1%	112.6%

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

In 2015, in addition to full deployment of capital, the Company has increased utilization of the credit facility which resulted in an increase in net interest income over the comparable 2014 periods. This resulted in distributable income in excess of our current distribution and a payout ratio of less than 100%.

The Company expects minor fluctuations in payout ratios as dividends are straight-lined while we experience fluctuations in distributable income.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## Statements of income and comprehensive income

	Three months ended June 30,			Six months ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Net interest income	\$ 11,532	\$ 9,465	21.8%	\$ 22,028	\$ 18,276	20.5%
Expenses	(2,481)	(2,049)	(21.1%)	(4,720)	(4,060)	(16.8%)
Income from operations	9,051	7,416	22.0%	17,308	14,216	21.7%
Net operating loss from foreclosed properties held for sale	(30)	(97)	69.4%	(112)	(194)	42.3%
Fair value adjustment of foreclosed properties held for sale	(150)	–	(100.0%)	(150)	–	(100.0%)
Financing costs:						
Interest on credit facility	(477)	(57)	(735.6%)	(758)	(121)	(531.9%)
Interest on convertible debentures	(672)	(665)	(1.1%)	(1,332)	(908)	(46.7%)
<b>Net income and comprehensive income</b>	<b>\$ 7,722</b>	<b>\$ 6,597</b>	<b>17.1%</b>	<b>\$ 14,956</b>	<b>\$ 12,993</b>	<b>15.1%</b>
<b>Earnings per share (basic and diluted)</b>	<b>\$ 0.19</b>	<b>\$ 0.17</b>	<b>14.4%</b>	<b>\$ 0.37</b>	<b>\$ 0.34</b>	<b>8.6%</b>

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

For Q2 2015 and YTD 2015, the Company earned net interest income of \$11.5 million and \$22.0 million (Q2 2014 – \$9.5 million; YTD 2014 – \$18.3 million). Net interest income includes the following:

#### (a) Interest income

For Q2 2015 and YTD 2015, the Company earned \$9.9 million and \$19.3 million (Q2 2014 – \$8.4 million; YTD 2014 – \$16.1 million) in interest income on the net mortgage investments. The increase over Q2 2014 and YTD 2014 is mainly due to a larger average net mortgage investments portfolio during Q2 2015 and YTD 2015 relative to Q2 2014 and YTD 2014 driven by no idle cash and increased utilization of the Company's credit facility borrowing during Q2 2015 and YTD 2015. The weighted average interest rate for the period on the net mortgage investments decreased slightly over YTD 2015, from 9.4% at December 31, 2014 to 9.2% at June 30, 2015, although still within our targeted range.

<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.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## (b) Lender fee income

During Q2 2015 and YTD 2015, the Company received lender fees of \$1.4 million and \$2.2 million (Q2 2014 – \$1.1 million; YTD 2014 – \$1.8 million), or a weighted average lender fee of 1.7% and 1.4% (Q2 2014 – 1.1%; YTD 2014 – 1.1%). The lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income but are paid out in the year they are received (see Distributable Income section). For Q2 2015 and YTD 2015, lender fees of \$1.6 million and \$2.7 million (Q2 2014 – \$1.0 million; YTD 2014 – \$2.0 million) 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 Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with shareholders.

## Expenses

For Q2 2015 and YTD 2015, the Company's expense ratio was 2.4% and 2.3% (Q2 2014 – 2.0%; YTD 2014 – 1.9%), including a fixed expense ratio of 1.7% and 1.7% (Q2 2014 – 1.6%; YTD 2014 – 1.5%). The increase in the expense ratios relative to the 2014 comparable periods is primarily driven by the increase in management and performance fees, resulting from increased gross assets and decrease in the 2-Yr GOC Yield relative to the 2014 comparable periods.

## Management fees

### (a) Management fees

The Company has entered in a management agreement with Timbercreek Asset Management Inc. (the "Manager") and under the 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 mortgage syndication liabilities.

For Q2 2015 and YTD 2015, the Company incurred management fees of \$1.5 million and \$3.0 million (Q2 2014 – \$1.4 million; YTD 2014 – \$2.6 million). The increase is directly related to the increase in gross assets averaging \$443.8 million in YTD 2015, in comparison to \$388.5 million in YTD 2014.

### (b) Performance fees

Under the management agreement, the Manager is 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 2-Yr GOC 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 Q2 2015 and YTD 2015, the Company accrued performance fees of \$0.7 million and \$1.3 million (Q2 2014 – \$0.5 million; YTD 2014 – \$0.8 million), which represents an increase of \$0.2 million and \$0.5 million, or 58.9% and 60.3%, respectively.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

The increase is attributed to a decrease in the average 2-Yr GOC Yield from 1.0% for both Q2 2014 and YTD 2014 to 0.6% for both Q2 2015 and YTD 2015, coupled with an increase in the Company's net earnings available to distribute over the Hurdle Rate. The decrease in the average 2-Yr GOC Yield resulted in the decrease of the annualized Hurdle Rate to 5.1% and 5.1% for Q2 2015 and YTD 2015 (Q2 2014 – 5.6%; YTD 2014 – 5.5%).

## **General and administrative**

For Q2 2015 and YTD 2015, the Company incurred general and administrative expenses of \$0.2 million and \$0.5 million (Q2 2014 – \$0.2 million; YTD 2014 – \$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 investments portfolio. The increase in general and administrative expenses relative to the comparable 2014 periods is attributed to increased professional fees and director fees related to the new DSU plan. The operating expense ratio for Q2 2015 and YTD 2015 equated to 0.2% and 0.2% (Q2 2014 – 0.2%; YTD 2014 – 0.2%).

## **Net operating loss from foreclosed properties held for sale**

The Company consolidates the operating activities of the foreclosed properties held for sale. The net operating loss from foreclosed properties held for sale for Q2 2015 and YTD 2015 were \$30 and \$112 (Q2 2014 – \$97; YTD 2014 – \$194). The loss is primarily attributable to fixed operating expenses at our property located in Montreal, QC which are being incurred while the property is held for sale.

## **Fair value adjustment on foreclosed properties held for sale**

During Q2 2015, the Company recorded an unrealized fair value loss of \$150 on the FPHFS. The fair value adjustment pertains to disposition costs at our property located in Montreal, QC .

## **Interest on credit facility**

The Company actively monitors the advances and repayments while efficiently using bankers' acceptances ("BA") for the majority of its borrowings to minimize interest costs. 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 2015 and YTD 2015 relating to the credit facility were \$0.5 million and \$0.8 million (Q2 2014 – \$0.1 million; YTD 2014 – \$0.1 million). The increase over the comparable 2014 periods are directly related to the significant increase in credit facility utilization during Q2 2015 and YTD 2015.

The Company incurred \$0.2 million of financing costs during YTD 2015 on the increase of the credit facility. These costs are amortized over the term of the credit facility.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## Interest on convertible debentures

During Q1 2014, the Company issued \$34.5 million of 6.35% convertible unsecured subordinated debentures. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For Q2 2015 and YTD 2015, interest on the debentures of \$0.7 million and \$1.3 million (Q2 2014 – \$0.7 million; YTD 2014 – \$0.9 million), is made up of the following:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Interest on the convertible debentures	\$ 548	\$ 546	\$ 1,085	\$ 756
Amortization of issue costs	96	89	190	113
Accretion of equity component of the convertible debentures	28	29	56	39
	<b>\$ 672</b>	<b>\$ 664</b>	<b>\$ 1,331</b>	<b>\$ 908</b>

## Earnings per share

For Q2 2015 and YTD 2015, earnings per share increased to \$0.19 and \$0.37 per share respectively, from \$0.17 and \$0.34 per share in Q2 2014 and YTD 2014, resulting from the increase in net income and comprehensive income over the comparable 2014 periods, which is primarily due to higher net interest income generated from a larger net mortgage investment portfolio.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## STATEMENTS OF FINANCIAL POSITION

### Net mortgage investments

The balance of net mortgage investments is as follows:

	Three months ended		Year ended
	June 30, 2015		December 31, 2014
Gross mortgage investments, including mortgage syndications	\$	682,982	\$ 616,174
Mortgage syndication liabilities		(288,799)	(219,581)
		394,183	396,593
Interest receivable		(5,573)	(4,392)
Unamortized lender fees		4,388	4,890
Allowance for mortgage investments loss		250	250
<b>Net mortgage investments</b>	<b>\$</b>	<b>393,248</b>	<b>\$ 397,341</b>

	Three months ended		Six months ended		Year ended
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	December 31, 2014
<b>Net mortgage investments statistics and ratios</b>					
Total number of net mortgage investments	113	88	113	88	105
Average net mortgage investment	\$ 3,480	\$ 3,722	\$ 3,480	\$ 3,722	\$ 3,784
Weighted average interest rate for the period <sup>1</sup>	9.2%	9.5%	9.2%	9.6%	9.4%
Weighted average lender fees	1.7%	1.1%	1.4%	1.1%	1.6%
Turnover ratio	29.6%	36.3%	37.1%	51.1%	112.6%
Weighted average term (years)	2.1	2.2	2.1	2.2	2.1
Remaining term to maturity (years)	1.3	1.3	1.3	1.3	1.4
Net mortgage investments secured by cash-flowing properties	86.3%	92.2%	86.3%	92.2%	81.2%
Weighted average loan-to-value	71.5%	61.7%	71.5%	61.7%	70.8%

The Company has developed a lending niche predominantly targeting short-term mortgage investments, secured by cash-flowing properties, while specializing in multi-residential real estate assets. The Company focuses its efforts on diversifying the mortgage investment portfolio, with its greatest concentration in Canada's largest provinces. As at June 30, 2015, 67.8% (December 31, 2014 – 74.9%) of the net mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance, which would in effect reduce the weighted average remaining term to maturity.

In YTD 2015, the Company advanced 31 (YTD 2014 – 30) new net mortgage investments totalling \$131.2 million (YTD 2014 – \$166.4 million), had additional advances on existing net mortgage investments totalling \$21.4 million (YTD 2014 – \$20.9 million) and received full repayments on 23 (YTD 2014 – 38) net mortgage investments and partial pay downs totalling \$156.7 million (YTD 2014 – \$172.7 million). Overall, the net mortgage investments portfolio decreased by \$4.1 million or 1.0% in YTD 2015.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## Portfolio allocation

The Company's net mortgage investments were allocated across the following categories:

### (a) Security Position

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
First mortgages	91	71.6%	84	69.5%
Non-first mortgages	22	28.4%	21	30.5%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

### (b) Region

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
ON	46	40.4%	50	44.4%
AB	8	6.0%	11	6.3%
QC	21	13.4%	16	14.3%
BC	15	8.0%	10	9.9%
SK	9	16.6%	7	15.3%
MB	8	4.1%	6	3.3%
OT	3	10.4%	3	5.3%
NB	1	0.1%	–	–
NS	2	1.0%	2	1.2%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

### (c) Maturity

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Maturing 2015, balance of year	33	25.5%	42	38.5%
Maturing 2016	36	36.6%	32	34.2%
Maturing 2017	39	24.8%	30	24.9%
Maturing 2018	5	13.1%	1	2.4%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## (d) Asset Type

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Multi-residential	62	61.2%	50	60.7%
Office	11	9.3%	15	8.0%
Retail	13	13.8%	14	14.3%
Retirement	5	3.5%	5	3.0%
Industrial	6	1.8%	4	1.6%
Unimproved land	7	6.2%	8	6.9%
Other-residential	3	0.7%	2	0.4%
Hotels	2	1.2%	3	3.1%
Self-storage	2	0.9%	2	0.9%
Single-family residential	2	1.4%	2	1.1%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

## (e) Interest Rate

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
9.99% or lower	78	79.0%	67	76.4%
10.00%–10.99%	18	10.8%	21	9.1%
11.00% or greater	17	10.2%	17	14.5%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

## (f) Loan-to-value

	June 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
55% or less	20	10.0%	20	9.3%
56%–60%	12	5.3%	10	7.2%
61%–65%	17	10.9%	13	8.8%
66%–70%	13	9.0%	11	14.5%
71%–75%	18	20.3%	17	18.6%
76%–80%	16	13.4%	19	11.5%
81%–85%	17	31.1%	15	30.1%
	<b>113</b>	<b>100.0%</b>	<b>105</b>	<b>100.0%</b>

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## **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. During YTD 2015, the mortgage syndication liabilities have increased to \$288.8 million (December 31, 2014 – \$219.6 million) as the Company syndicated on several mortgage investments. Mortgage syndication liabilities will vary from quarter to quarter and is 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 foreclosed properties held for sale as at June 30, 2015 is \$13.4 million (December 31, 2014 – \$13.9 million). The Company has engaged third party managers to operate the properties while they are held for sale.

During YTD 2015, the Company closed on the sale of two residential unit (YTD 2014 – two) from one of the foreclosed properties for net proceeds of \$361 (YTD 2014 – \$339). During Q2 2015, the Company recorded an unrealized fair value adjustment on the FPHFS of \$150 (Q2 2014 – nil) on its Montreal, QC property for disposition costs.

## **Allowance for mortgage investments loss**

As at June 30, 2015, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. 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.

As at June 30, 2015, the Company has a collective impairment allowance of \$0.3 million (December 31, 2014 – \$0.3 million) and does not have a specific impairment allowance (December 31, 2014 – nil).

## **Net working capital**

Net working capital increased by \$1.5 million to \$1.6 million at June 30, 2015 from \$0.1 million at December 31, 2014. The change is mainly due to the increase in mortgage interest receivable and the reduction in due to Manager from the payment of the 2014 performance fee during YTD 2015.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## Credit facility

As at June 30, 2015, the Company has a credit facility with an available limit of \$60.0 million (December 31, 2014 – \$35.0 million). On January 30, 2015, the Company completed a \$15.0 million increase on the credit facility, taking its total available borrowing limit to \$50.0 million. On March 24, 2015, the Company executed the accordion feature of the credit facility, increasing the available borrowing limit to \$60.0 million. The credit facility bears interest at either the prime rate of interest plus 1.5%, or bankers' acceptances ("BA") with a stamping fee of 2.5% of the face amount of such BA. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on October 31, 2016. As at June 30, 2015, \$6.3 million was outstanding on the credit facility (December 31, 2014 – \$9.1 million). The credit facility allows the Company to keep the mortgage investments portfolio invested and minimize the impact of unanticipated portfolio turnover.

During Q2 2015 and YTD 2015, the Company significantly increased its utilization of the credit facility relative to the comparable 2014 periods, with a significant portion of borrowing through BA's in order to reduce financing costs.

As at June 30, 2015, there were \$0.3 million (December 31, 2014 – \$0.2 million) in unamortized financing costs related to the placement of the credit facility netted against the outstanding facility balance. For Q2 2015 and YTD 2015, the Company has amortized financing costs of \$60 and \$108 (Q2 2014 – \$31; YTD 2014 – \$63) to interest expense using the effective interest rate method.

## Convertible debentures

On February 25, 2014, the Company completed a public offering of \$34.5 million, 6.35% convertible unsecured subordinated debentures for net proceeds of \$32.5 million (the "debentures"). The debentures are listed on the Toronto Stock Exchange (the "TSX") under the symbol 'TMC.DB', mature on March 31, 2019, with interest 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 available including the maximum credit facility amount plus the convertible debentures at June 30, 2015, equates to approximately 20% of total assets, net of mortgage syndications. 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 \$31.9 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 \$2.0 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 and six months ended June 30, 2015

## Shareholders' equity

### (a) 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 are entitled to receive dividends as and when declared by the Board of Directors.

### (b) Dividends

The Company intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month. During Q2 2015 and YTD 2015, the Board of Directors declared dividends of \$7.3 million and \$14.6 million, or \$0.180 and \$0.360 per common share, (Q2 2014 – \$8.2 million, \$0.201 per common share; YTD 2014 – \$15.6 million, \$0.402 per common share).

### (c) Dividend reinvestment plan

The Company's dividend reinvestment plan (the "DRIP") provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares.

Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. During Q2 2015 and YTD 2015, 98,223 and 191,554 common shares were purchased on the open market (Q2 2014 – 84,214; YTD 2014 – 161,725 common shares purchased on the open market).

### (d) Normal course issuer bid

On November 13, 2014, the Company received the approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,052,822 common shares; representing approximately 10% of the public float of common shares as of November 11, 2014. Furthermore, subject to certain exemptions for block purchases, the purchases are limited to 13,170 common shares on any one trading day. The Bid commenced on November 17, 2014 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on November 16, 2015, or such earlier date as the Bid is complete. During YTD 2015, the Company acquired 37,400 common shares for cancellation at a cost of \$0.3 million.

The Company may use the Bid to repurchase shares in years where the Company has income in excess of its dividends that would be accretive to shareholders.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

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

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan for the purpose of: (a) enhancing the Company's ability to provide long-term incentive compensation to directors which is linked to performance of the Company and not dilutive to shareholders, (b) assisting the Company in attracting, retaining and motivating its directors; and (c) promoting a closer alignment of interests between directors and shareholders of the Company. Under the Plan, up to 100% of the compensation for a director may be paid to the director in the form of DSUs, credited quarterly in arrears. Directors may elect annually, in accordance with the Plan, as to how much (if any) of the compensation will be paid in DSUs, having regard at all times for the ownership guidelines of the Plan. 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 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"). DSUs granted entitle the directors to also accumulate DSUs equal to the monthly cash dividends, assuming the reinvestment of the dividends into units is based upon the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director's DSU account 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 number of DSUs that is equal to the result of multiplying 25% of the director's DSU issuance up to a maximum value of \$5 thousand 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 of one common share as of the 24th business day after publication of the condensed consolidated interim financial statements following a director's departure from the Board of Directors.

In conjunction with the Plan, the Company has also adopted a share ownership guideline for the non-executive directors. The ownership guidelines require that each non-executive director acquire and maintain a level of ownership that has a value equal to at least three times their annual retainer and meeting fees, within a five year period.

For the six months ended June 30, 2015, the directors, on average, have elected to receive 94% of their quarterly compensation in DSUs. For Q2 2015 and YTD 2015, 5,629 and 5,629 DSUs were issued and outstanding and no DSUs were exercised or cancelled. As at June 30, 2015, the fair value of the outstanding DSUs amounted to \$47, based on the Fair Market Value of \$8.28 per common share, and is included in accrued expenses.

## STATEMENT OF CASH FLOWS

### Cash from operating activities

Cash from operating activities for Q2 2015 and YTD 2015 was \$9.1 million and \$14.8 million (Q2 2014 – \$7.1 million; YTD 2015 – \$11.2 million), an increase of \$2.0 million and \$3.6 million, or 28.2% and 32.4%, from Q2 2014 and YTD 2014, respectively. The increase is primarily a result of greater net income and comprehensive income and the change in non-cash operating items compared to Q2 2014 and YTD 2014.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## Cash from financing activities

Uses of cash from financing activities for Q2 2015 and YTD 2015 consisted of the Company's repayments on the credit facility of \$48.0 million and \$2.8 million (Q2 2014 – nil; YTD 2014 – nil), which were made using the proceeds from the large mortgage repayments received during June 2015. The Company paid interest on the debentures and credit facility of \$0.3 million and \$1.9 million (Q2 2014 – \$38; YTD 2014 – \$57) and common share dividends of \$7.3 million and \$14.6 million (Q2 2014 – \$7.9 million; YTD 2014 – \$15.4 million). The net cash utilized by financing activities for Q2 2015 and YTD 2015 was \$55.9 million and \$19.7 million (Q2 2014 – \$24.8 million net cash provided; YTD 2014 – \$50.2 million net cash provided), whereas, in Q2 2014 and YTD 2014, the Company raised proceeds of \$32.6 million from the issuance of convertible debentures and \$33.1 million from the issuance of common shares.

## Cash from investing activities

Net cash provided by investing activities for Q2 2015 and YTD 2015 was \$46.1 million and \$4.4 million (Q2 2014 – \$11.7 million cash provided; YTD 2014 – \$14.3 million net cash used) and consisted of the funding of net mortgage investments of \$78.5 million and \$152.6 million respectively, (Q2 2014 – \$115.1 million; YTD 2014 – \$187.3 million) which was offset by the repayments of net mortgage investments of \$124.4 million and \$156.7 million respectively, (Q2 2014 – \$126.5 million; YTD 2014 – \$172.7 million) and proceeds from disposal of FPFS of \$168 and \$361 respectively (Q2 2014 – \$339; YTD 2014 – \$339).

## QUARTERLY FINANCIAL INFORMATION

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

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Net interest income	\$ 11,532	\$ 10,496	\$ 9,774	\$ 8,660	\$ 9,465	\$ 8,811	\$ 9,926	\$ 9,888
Expenses <sup>1</sup>	(2,481)	(2,239)	(2,336)	(2,042)	(2,049)	(2,011)	(3,082)	(5,622)
Income from operations	9,051	8,257	7,438	6,618	7,416	6,800	6,844	4,266
Net operating gain (loss) from FPFS	(30)	(82)	(58)	81	(97)	(97)	(182)	–
Fair value adjustment of FPFS	(150)	–	(800)	149	–	–	–	–
Financing costs:								
Interest on credit facility	(477)	(281)	(87)	(67)	(57)	(64)	(195)	(98)
Interest on convertible debentures	(672)	(660)	(681)	(671)	(664)	(243)	–	–
Issuance costs of redeemable shares	–	–	–	–	–	–	(3)	–
Dividends to holders of redeemable shares	–	–	–	–	–	–	(2,414)	(7,299)
Total financing costs	(1,149)	(941)	(768)	(738)	(721)	(307)	(2,612)	(7,397)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 7,722</b>	<b>\$ 7,234</b>	<b>\$ 5,812</b>	<b>\$ 6,110</b>	<b>\$ 6,598</b>	<b>\$ 6,396</b>	<b>\$ 4,050</b>	<b>\$ (3,131)</b>
<b>Earnings per share (basic and diluted) <sup>2</sup></b>	<b>\$ 0.19</b>	<b>\$ 0.18</b>	<b>\$ 0.14</b>	<b>\$ 0.15</b>	<b>\$ 0.17</b>	<b>\$ 0.17</b>	<b>\$ –</b>	<b>\$ –</b>

1 Q3 2013 includes one-time transition related costs of \$3.4 million.

2 Earnings per share for quarters in 2013 have not been presented as the Company did not have equity instruments, as defined in IAS 33, *Earnings per Share*, as the redeemable shares were classified as financial liability in the statements of financial position.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

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 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) 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. Following November 29, 2013, the dividends to common shareholders are presented in the statement of changes in equity.
- (iv) In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS, resulting in fluctuations in quarterly net income and comprehensive income.
- (v) The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs.

## RELATED PARTY TRANSACTIONS

As at June 30, 2015, due to Manager includes management and performance fees payable of \$1.3 million (December 31, 2014 – \$2.0 million) and nil (December 31, 2014 – \$6) related to costs incurred by the Manager on behalf of the Company.

The Manager is responsible for the general management and day to day operations of the Company and, through Timbercreek Mortgage Servicing Inc. ("TMSI"), a company controlled by the Manager, acts as the Company's mortgage servicer and administrator. As at June 30, 2015, included in other assets is \$1.8 million (December 31, 2014 – \$3.0 million) of cash held in trust for the Company by TMSI, the balance of which relates to mortgage funding holdbacks, prepaid mortgage interest and lender fees received from various borrowers.

In pursuit of meeting its investment objectives, the Company, from time to time and at the discretion of the Manager, syndicates its mortgage investments. As at June 30, 2015, the Company, Timbercreek Senior Mortgage Investments Corporation ("TSMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments totalling \$730.9 million (December 31, 2014 – \$701.9 million). During YTD 2015, the Company, along with its related parties, funded \$184.6 million in co-invested gross mortgage investments and received repayments of \$155.7 million. As at June 30, 2015, the Company's share in these gross mortgage investments is \$247.9 million (December 31, 2014 – \$268.9 million). Included in these amounts is a net mortgage investment of \$1.2 million (December 31, 2014 – \$1.1 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.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## 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.

## 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 the consolidated financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the 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: 1) payment default by a borrower; 2) whether security of the mortgage 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.

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.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## 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 and 18 to the consolidated financial statements for the year ended December 31, 2014.

## SIGNIFICANT ACCOUNTING POLICIES

Except for the changes below, the Company has consistently applied the accounting policies set out to all periods presented in its consolidated financial statements for the years ended December 31, 2014 and 2013, which were prepared in accordance with IFRS.

### Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company's non-executive directors are participating in a deferred share unit plan (the "Plan") in respect of their compensation as directors of the Company. The benefit resulting from the grant of DSUs under the Plan is recorded in profit and loss when awarded. DSUs granted are included within accrued expenses based on the fair market value of the DSUs on the date of grant and are subsequently measured at each reporting date at their fair value with changes in the carrying amount recognized in profit and loss.

## OUTSTANDING SHARE DATA

As at August 10, 2015, the Company's authorized capital consists of an unlimited number of common shares, of which 40,664,128 are issued and outstanding. In addition, as at the date of this MD&A, 3,066,667 common shares are issuable upon conversion or redemption of the debentures (based on the conversion price of \$11.25 per common share).

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## 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 YTD 2015, the Company further increased the available borrowing limit of the credit facility to complement the common shares and convertible debentures. The Company believes that the modest amount of structural leverage gained from the debentures and credit facility is accretive to net earnings, while having a low impact on 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, equity and debenture offerings and the credit facility. The Company has a borrowing ability of \$60.0 million through its credit facility and intends to utilize the credit facility to manage the fluctuations in cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs. As at June 30, 2015, 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.

The following are the contractual maturities of financial liabilities as at June 30, 2015, including expected interest payments:

	Carrying values	Contractual cash flows	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 867	\$ 867	\$ 867	\$ –	\$ –
Dividends payable	2,440	2,440	2,440	–	–
Due to Manager	1,263	1,263	1,263	–	–
Mortgage funding holdbacks	768	768	768	–	–
Prepaid mortgage interest	1,040	1,040	1,040	–	–
Credit facility <sup>1</sup>	5,974	6,640	273	6,367	–
Convertible debentures	32,634	42,723	2,191	2,191	38,341
Total liabilities	\$ 44,986	\$ 55,741	\$ 8,842	\$ 8,558	\$ 38,341
Unadvanced gross mortgage commitments	–	170,415	170,415	–	–
<b>Total contractual liabilities</b>	<b>\$ 44,986</b>	<b>\$ 226,156</b>	<b>\$ 179,247</b>	<b>\$ 8,558</b>	<b>\$ 38,341</b>

<sup>1</sup> Includes interest on the credit facility assuming the outstanding balance is not repaid until its maturity in October 2016 and interest is calculated at the prime rate of interest plus 1.50%.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

As at June 30, 2015, the Company had a cash position of nil (December 31, 2014 – \$0.5 million) and an unutilized credit facility of \$53.7 million (December 31, 2014 – \$25.9 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 \$104.0 million (December 31, 2014 – \$42.8 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 other assets and mortgage investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of 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 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.

## 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. There have been no changes to the Company, which may affect the overall risk of the Company.

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 year ended December 31, 2014.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## **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 ("NI 52-109")) at June 30, 2015 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 June 30, 2015 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.

During YTD 2015, the Manager implemented a new mortgage administration and portfolio management software. This new software allows the Manager to monitor the portfolio in real-time. The Manager has assessed that the new software did not cause significant or material changes to the design of internal controls over financial reporting.

There were no other changes made in our design of internal controls over financial reporting during Q2 2015 and YTD 2015, 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.

# Management's Discussion and Analysis

For the three and six months ended June 30, 2015

## 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 the Company's website at [www.timbercreekmic.com](http://www.timbercreekmic.com)

### Mail

Writing to the Company at:

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