

Management's Discussion and Analysis

Timbercreek Financial

For the year ended December 31, 2017

Management's Discussion and Analysis

For the year ended December 31, 2017

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

FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

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

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company's public disclosures. For more information on risks, please refer to the "Risks and Uncertainties" section in this MD&A, and the "Risk Factors" section of our Annual Information Form ("AIF"), which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

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 March 5, 2018. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekfinancial.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

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BUSINESS OVERVIEW

Timbercreek Financial Corp. is a leading non-bank lender providing financing solutions to qualified real estate investors who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term mortgages to bridge a period (generally one to five years) during which they conduct property repairs, redevelop the property or purchase another investment. These short-term "bridge" mortgages are typically repaid with traditional bank mortgages (lower cost and longer-term debt) once the transitional period is over or a restructuring is complete or from proceeds generated on the sale of assets. Timbercreek Financial focuses primarily on lending against income-producing real estate such as multi-residential, retail and office properties. This emphasis on cash-flowing properties is an important risk management strategy.

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

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

BASIS OF PRESENTATION

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

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

Copies of these documents have been filed electronically with securities regulators in Canada through SEDAR and may be accessed through the SEDAR website at www.sedar.com.

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 Company's ability to earn and distribute cash dividends to shareholders and to evaluate its performance.

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

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

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- Adjusted earnings per share – represents the total adjusted total net income and comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company's ability to generate recurring cash flows for dividends by removing the effect of lender fees, amortization, accretion, unrealized fair value adjustments, provisions for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain, and unrealized gain or loss from total net income and comprehensive income;
- Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period; Expense ratio – represents total expenses excluding financing costs, net operating (gain) loss from FPHFS, fair value adjustment on FPHFS, provision for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- Fixed expense ratio – represents expenses as calculated under expense ratio, less performance fees, for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period; and
- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

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RECENT DEVELOPMENTS AND OUTLOOK

In 2017, Timbercreek Financial delivered solid financial results based on the strong underlying performance of the investment portfolio and the continued execution of our strategy to be the lender of choice in the industry. During 2017, we enhanced our profile in the capital markets, increased and diversified our capital base, and reduced risk at the portfolio level by increasing our exposure to first mortgages while maintaining our focus on income-producing real estate, which underpins our strategy to deliver strong risk-adjusted returns to shareholders.

During the fourth quarter, Timbercreek Financial further increased its capital base to support the expansion of the investment portfolio. In December 2017, the Company entered into a second amended and restated credit agreement with a syndicate of 10 lenders for revolving credit facilities in an aggregate amount of \$400 million (which includes a \$20 million swingline facility). The commitments of the lenders under the revolving credit facility may be increased by \$100 million by way of an accordion feature, subject to satisfaction of certain conditions.

Subsequent to year end, Timbercreek Financial completed a bought offering of common shares for gross proceeds (including the underwriters' overallotment option) of \$45.1 million. In addition, \$40 million of the credit facility's accordion feature has been exercised, bring the aggregate available amount to \$440 million.

PORTFOLIO ACTIVITY

In Q4 2017, we funded 11 new mortgage investments totaling \$100.9 million and made additional advances of \$39.6 million. Portfolio turnover was 10.9%, up from 9.5% in Q3 2017. The net value of our commercial mortgage portfolio, excluding syndications, was approximately \$1.1 billion at the end of Q4 2017, similar to the value at the end of Q3 2017. Our draw on the credit facility (excluding the credit facility associated with investment properties) stood at \$365.9 million at the end of Q4 2017 compared to \$340.5 million at the end of Q3 2017. We continue to review a significant pipeline of quality investment opportunities, including a growing list of higher-yielding special situations investments.

During the past several quarters, we have broadened the types of investments in our portfolio to include certain higher-yielding investments such as collateralized loans, debentures, participating mortgages and marketable securities, as well as investment properties in the enhanced return portfolio. Leveraging the full breadth of the Manager's origination capabilities and underwriting standards, these investments generate accretive returns and increase our portfolio diversification. At the end of Q4 2017, the enhanced return portfolio was \$70.5 million, which include \$57.9 of other investments and \$12.6 of net equity in investment properties, represented approximately 5.8% of the total assets net of syndications. We continue to source interesting new investment opportunities in this category, with a current target of 10% of the portfolio.

We believe Timbercreek Financial offers a superior risk profile while still generating an attractive yield for our investors. Our risk management is achieved through a variety of strategies, including a focus on lending against income-producing assets and an emphasis on first mortgages. Our exposure to first mortgages was 93% at year-end, consistent with Q3 2017 and well ahead of our internal target of 75%. Our weighted average loan-to-value ratio was 66%, similar to Q3 2017 and below our internal target of 70%. Our weighted average interest rate on mortgage investments was 6.9% for Q4 2017, slightly down from Q3 2017 as we continue to roll off older higher-risk mortgages into lower-risk mortgages in accordance with the Company's repositioning

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post-amalgamation. Given recent rate increases in Canada, we have seen a modest positive trend on rates for new loans, but expect that it will take some time for these increases to be reflected in our average interest rate.

Although higher rates can be obtained by investing in single-family housing, condominiums and construction, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings. At year end, 86.7% of the mortgage investments were secured by income-producing properties, which underscores our focus on cash-flowing properties as a risk management strategy. Approximately 50% of the portfolio at year end was secured by multi-residential real estate (apartment buildings), which is a stable asset class with predictable cash-flow streams.

The portfolio remains heavily weighted towards Canada's largest provinces, with approximately 81% of the portfolio invested in Ontario, Quebec and British Columbia. Urban markets generally experience better real estate liquidity in periods of uncertainty and thus offer a better risk profile. The percentage of assets invested in Alberta increased moderately to 12.1% from the prior quarter at 10.9%. As discussed in recent quarters, we are seeing more quality investment opportunities in Alberta, although we continue to exercise caution given the economic conditions in the province.

TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

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FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	December 31, 2017	December 31, 2016	December 31, 2015
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 1,554,369	\$ 1,549,849	\$ 750,704
Other investments	\$ 57,934	\$ 9,828	\$ –
Investment properties	\$ 42,748	\$ –	\$ –
Total assets	\$ 1,664,759	\$ 1,573,970	\$ 766,734
Credit facility	\$ 394,046	\$ 299,000	\$ 53,812
Convertible debentures	\$ 163,946	\$ 76,757	\$ 32,778
Total liabilities	\$ 1,011,637	\$ 927,298	\$ 404,405
CAPITAL STRUCTURE			
Shareholders' equity	\$ 653,122	\$ 646,672	\$ 362,329
Convertible debentures, par ¹	\$ 171,300	\$ 80,300	\$ 34,500
Credit facility limit	\$ 433,277	\$ 350,000	\$ 60,000
Leverage ¹	46.4%	37.0%	19.3%
COMMON SHARE INFORMATION			
Number of common shares outstanding	74,277,356	73,858,499	40,523,728
Closing trading price	\$ 9.62	\$ 8.72	\$ 7.58
Market capitalization	\$ 714,548	\$ 644,046	\$ 307,170

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

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OPERATING RESULTS

	Three months ended December 31,		Year ended December 31,		
	2017	2016	2017	2016	2015
Net investment income ¹	\$ 23,178	\$ 20,583	\$ 88,937	\$ 61,422	\$ 43,003
Net rental income ¹	\$ 99	\$ –	\$ 193	\$ –	\$ –
Income from operations ¹	\$ 19,644	\$ 17,940	\$ 75,374	\$ 51,231	\$ 32,750
Total net income and comprehensive income	\$ 12,876	\$ 13,078	\$ 52,204	\$ 45,999	\$ 28,021
Earnings per share (basic)	\$ 0.17	\$ 0.18	\$ 0.70	\$ 0.80	\$ 0.69
Earnings per share (diluted)	\$ 0.17	\$ 0.18	\$ 0.70	\$ 0.80	\$ 0.69
Adjusted total net income and comprehensive income ¹	\$ 12,876	\$ 13,162	\$ 52,204	\$ 39,940	\$ 28,021
Adjusted earnings per share (basic and diluted) ¹	\$ 0.17	\$ 0.18	\$ 0.70	\$ 0.70	\$ 0.69
Dividends to shareholders	\$ 12,769	\$ 12,630	\$ 50,736	\$ 39,895	\$ 29,253
Dividends per common share	\$ 0.172	\$ 0.171	\$ 0.685	\$ 0.702	\$ 0.720
Payout ratio on earnings per share ¹	99.2%	96.6%	97.2%	86.7%	104.4%
Distributable income ¹	\$ 13,681	\$ 13,905	\$ 55,262	\$ 42,636	\$ 29,484
Distributable income per share ¹	\$ 0.18	\$ 0.19	\$ 0.75	\$ 0.74	\$ 0.73
Payout ratio on distributable income ¹	93.3%	90.8%	91.8%	93.5%	99.2%

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

For the three months ended December 31, 2017 ("Q4 2017") and December 31, 2016 ("Q4 2016")

- The Company funded 11 new net mortgage investments (Q4 2016 – 12) totaling \$100.9 million (Q4 2016 – \$74.3 million), made additional advances on existing mortgage investments totaling \$39.6 million (Q4 2016 – \$34.8 million) and received full repayments on 13 mortgage investments (Q4 2016 – 10) and partial repayments totaling \$119.1 million (Q4 2016 – \$119.6 million). As a result, the net mortgage portfolio as at December 31, 2017 has increased by \$21.4 million to \$1,103.6 million (September 30, 2017 - \$1,082.2), or 2% from September 30, 2017.
- Other investments within the enhanced return portfolio was \$57.9 million (2016 - \$9.8 million), a net increase of \$7.4 million in the quarter.
- Net investment income earned was \$23.2 million (Q4 2016 – \$20.6 million), an increase of \$2.6 million, or 12.6% from Q4 2016, mainly due to an increase in average net mortgage balance of \$1,098.1 million compared to \$1,016.2 million during Q4 2016, offset by a decrease in weighted average interest rate, and increase of income generated from other investments within the enhanced return portfolio.
- Non-refundable cash lender fees received was \$1.8 million (Q4 2016 – \$1.5 million) or a weighted average lender fees on mortgage investments of 1.0% (Q4 2016 – 0.8%).
- The Company generated income from operations of \$19.6 million (Q4 2016 – \$17.9 million), an increase of \$1.7 million or 9.5% from Q4 2016.
- The Company generated net income and comprehensive income of \$12.9 million (Q4 2016 – \$13.1 million) or earnings per share \$0.17, basic and diluted (Q4 2016 – \$0.18, basic and diluted). The Company declared \$12.8 million in dividends (Q4 2016 – \$12.6 million) to common shareholders, a payout ratio of 99.2% (Q4 2016 – 96.6%) on an earnings per share basis.

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- The Company generated distributable income of \$13.7 million (Q4 2016 – \$13.9 million) or distributable income per share of \$0.18 (Q4 2016 – \$0.19), a payout ratio of 93.3% (Q4 2016 – 90.8%) on a distributable income basis.
- On December 21, 2017, the Company further amended the credit facility agreement (the "Amended Credit Agreement") for a credit limit of \$400,000 which may be increased by \$100,000 through an accordion feature, subject to certain conditions. The credit facility agreement will mature on December 20, 2019.

For the years ended December 31, 2017 ("2017") and December 31, 2016 ("2016")

- The Company funded 47 new net mortgage investments (2016 – 58) totaling \$404.7 million (2016 – \$336.4 million), made additional advances on existing mortgage investments totaling \$128.2 million (2016 – \$104.2 million) and received full repayments on 55 mortgage investments (2016 – 41) and partial repayments totaling \$428.8 million (2016 – \$339.6 million). As a result, the net mortgage investment portfolio as at December 31, 2017 has increased by \$104.1 million, net of foreign exchange translation loss of \$0.5 million, to \$1,103.6 million (December 31, 2016 – \$1,000.0 million), or 10.4% from December 31, 2016.
- The Company received \$38.9 million, representing full repayment of the original mortgage principal (net of syndications), Debtor-in-possession (the "DIP") financing and accrued interest, from first mortgage investments located in Saskatchewan which the borrower had filed for protection under the CCAA in December 2016. These first mortgage investments were repaid as a result of the sale of the underlying properties, along with other properties of the same default borrower (the "Saskatchewan Portfolio"). Refer to notes 4(d) and 5(b) of the Consolidated Financial Statements for the years ended December 31, 2017 and 2016
- Other investments within the enhanced return portfolio was \$57.9 million (2016 – \$9.8 million), a net increase of \$48.1 million in 2017 (2016 – \$9.8 million).
- The Company acquired 20.46% of co-ownership interests in the Saskatchewan Portfolio which comprised of 14 properties totaling 1,079 units that are located in Saskatchewan for a total purchase price of \$201.7 million (the Company's share is \$41.3 million). Details of the transaction is described in the Investment properties section on Page 18.
- Net investment income earned was \$88.9 million (2016 – \$61.4 million), an increase of \$27.5 million, or 44.8% from 2016 due to an increase in average net mortgage balances to \$1,147.0 million (December 31, 2016 – \$701.3 million) and increase in other investments within the enhanced return portfolio to \$57.9 (December 31, 2016 – \$9.8 million).
- The Company generated income from operations of \$75.4 million (2016 – \$51.2 million), an increase of \$24.2 million or 47.3% from 2016.
- The Company generated net income and comprehensive income of \$52.2 million (2016 – \$46.0 million) or earnings per share \$0.70, basic and diluted (2016 – \$0.80, basic and diluted). The Company declared \$50.7 million in dividends (2016 – \$39.9 million) to common shareholders resulting in a payout ratio of 97.2% (2016 – 86.7%) on an earnings per share basis. Total dividends to common shareholders has increased as a direct result of the Amalgamation in 2016.
- The Company generated distributable income of \$55.3 million (2016 – \$42.6 million) or distributable income per share of \$0.75 (2016 – \$0.74) resulting in a payout ratio of 91.8% (2016 – 93.6%) on a distributable income basis.
- On February 7, 2017, the Company completed an unsecured convertible debenture offering for gross proceeds of \$40.0 million plus an additional \$6.0 million from the over-allotment option and net proceeds of \$43.7 million. The unsecured

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convertible debentures will mature on March 31, 2022 and pay interest semi-annually on March 31 and September 30 at a rate of 5.45% per annum.

- On June 13, 2017, the Company completed an unsecured convertible debenture offering for gross proceeds of \$40.0 million plus an additional \$5.0 million on June 27, 2017 from the over-allotment option and net proceeds of \$42.8 million. The unsecured convertible debentures will mature on June 30, 2024 and pay interest semi-annually on June 30 and December 31 at a rate of 5.30% per annum.
- On December 21, 2017, the Company further amended the credit facility agreement (the "Amended Credit Agreement") for a credit limit of \$400,000 which may be increased by \$100,000 through an accordion feature, subject to certain conditions, and will mature on December 20, 2019.

Analysis of Financial Information for the Period

Distributable income

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Net income and comprehensive income	\$ 12,876	\$ 13,078	\$ 52,204	\$ 45,999
Less: amortization of lender fees	(2,193)	(1,814)	(7,858)	(5,720)
Add: lender fees received	1,766	1,543	6,802	5,905
Add: amortization of financing costs, credit facility	352	280	1,266	775
Add: amortization of financing costs, debentures	409	214	1,438	566
Add: accretion expense, debentures	91	41	314	135
Add: unrealized fair value adjustments on FPHFS ¹	—	500	193	1,075
Add: net operating (gain) loss from FPHFS	41	(3)	(69)	(23)
Add: net realized and unrealized foreign exchange (gain) loss	—	(18)	129	(17)
Add: unrealized (gain)/loss on equity investments	39	—	43	—
Add: provision for mortgage investments loss	300	—	800	—
Add: termination of management contracts	—	—	—	7,438
Add: transaction costs relating to the Amalgamation	—	84	—	1,657
Less: bargain purchase gain	—	—	—	(15,154)
Distributable income²	13,681	13,905	55,262	42,636
Less: dividends on common shares	(12,769)	(12,630)	(50,736)	(39,893)
Under distribution	\$ 912	\$ 1,275	\$ 4,526	\$ 2,743
Distributable income per share	\$ 0.18	\$ 0.19	\$ 0.75	\$ 0.74

1 Excludes net realized gain of \$3 from sale of FPHFS.

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

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

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Statement of net income and comprehensive income

	Three months ended			%	Year ended		%
	December 31,			Change	December 31,		Change
	2017	2016			2017	2016	
Net investment income	\$ 23,178	\$ 20,583		12.6%	\$ 88,937	\$ 61,422	44.8%
Net rental income	99	–		100.0%	193	–	100.0%
Expenses ²	(3,633)	(2,643)		(37.4%)	(13,756)	(10,191)	(35.0%)
Income from operations	19,644	17,940		9.5%	75,374	51,231	47.1%
Net operating gain from FPHFS	(40)	3		(1466.7%)	70	23	204.3%
		–		100.0%	–	–	(100.0%)
Fair value adjustment on FPHFS	146	(500)		100.0%	(190)	(1,075)	82.0%
Termination of management contracts	–	–		0.0%	–	(7,438)	100.0%
Transaction costs relating to the Amalgamation	–	(84)		100.0%	–	(1,657)	100.0%
Bargain purchase gain	–	–		0.0%	–	15,154	(100.0%)
Financing costs:							
Interest on credit facility	(3,986)	(2,833)		(40.7%)	(13,074)	(6,281)	(108.1%)
Interest on convertible debentures	(2,886)	(1,448)		(99.3%)	(9,976)	(3,958)	(152.1%)
Net income and comprehensive income (basic)	\$ 12,876	\$ 13,078		3.8%	\$ 52,204	\$ 45,999	13.5%
Net income and comprehensive income (diluted)	\$ 15,080	\$ 13,162		11.0%	\$ 59,466	\$ 39,940	48.9%
Earnings per share (basic)	\$ 0.17	\$ 0.18			\$ 0.70	\$ 0.80	
Earnings per share (diluted)	\$ 0.17	\$ 0.18			\$ 0.70	\$ 0.70	
Adjusted earnings per share (basic and diluted) ¹	\$ 0.17	\$ 0.18			\$ 0.70	\$ 0.70	

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

2 Amounts include provision for mortgage investments loss.

Net investment income ²

For Q4 2017 and 2017, the Company earned net investment income of \$23.2 million and \$88.9 million (Q4 2016 – \$20.6 million; 2016 – \$61.4 million). Net investment income includes the following:

(a) Interest income

During Q4 2017 and 2017, the Company earned \$20.0 million and \$78.9 million (Q4 2016 – \$18.7 million; 2016 – \$55.5 million) of interest income on net mortgage investments and collateralized loans in the enhanced return portfolio. The increase is mainly attributable to 2017 being the first full year in operations after the Amalgamation and the increase in capital from issuance of two convertible debentures in 2017. The weighted average interest rate on net mortgage investments during Q4 2017 and 2017 decreased to 6.9% and 7.0% compared to 7.4% in Q4 2016 and 7.9% in 2016. The weighted average interest rate was impacted after the Amalgamation to reflect the lower risk profile of the Amalgamated company as compared to the comparative period which only reflected TMIC and is in line with management's expectations.

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

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(b) Lender fee income

During Q4 2017 and 2017, the Company received non-refundable cash lender fees of \$1.8 million and \$6.8 million (Q4 2016 – \$1.5 million; 2016 – \$5.9 million), or a weighted average lender fee of 1.0% and 1.0%, respectively (Q4 2016 – 0.8%; 2016 – 1.1%). Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method. For Q4 2017 and 2017, lender fees of \$2.2 million and \$7.9 million (Q4 2016 – \$1.5 million; 2016 – \$5.9 million) were amortized to lender fee income. Lender fees continue to be a significant component of income as a result of mortgage investment turnover. The Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders. Other income

(c) Other income

During Q4 2017 and 2017, the Company earned other income of \$990 and \$2.1 million (Q4 2016 – \$23; 2016 – \$213).

Net rental income from investment properties

The net rental income from investment properties for Q4 2017 and 2017 was \$99 and \$193, respectively (Q4 2016 and 2016 – nil).

Expenses

For Q4 2017 and 2017, the expense ratio was 1.1% (Q4 2016 and 2016 – 1.0%) and the fixed expense ratio of 1.1% (Q4 2016 – 1.0%; and 2016 – 0.9%).

Management fees

Concurrently with the Amalgamation, the Company and the Manager entered into a new management agreement. The new management fee is equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross Assets is defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties. The previous management agreement between TMIC and the Manager, terminated on the Effective Date, had management fee equal to 1.20% per annum of the gross assets of TMIC, plus applicable taxes.

For Q4 2017 and 2017, the Company incurred management fees of \$2.8 million and \$10.6 million (Q4 2016 – \$2.5 million; 2016 – \$7.9 million). The increase is directly related to the increase in gross assets averaging \$1,147 million in 2017, compared to \$701 million in 2016.

Servicing and performance fees

(a) Servicing fees

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

For Q4 2017 and 2017, the Company incurred \$0.1 million and \$0.6 million, respectively (Q4 2016 and 2016 – \$0.2 million and \$0.3 million, respectively) in servicing fees -.

(b) Performance fees

Under the management agreement prior to the Amalgamation, the Manager was entitled to a performance fee from TMIC equal to 20%, plus applicable taxes, of the net earnings available for distribution to shareholders in excess of the hurdle rate, which is

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the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points. Under the new management agreement, the Manager does not receive any performance fees.

Performance fees of \$1.2 million were accrued up to June 29, 2016, prior to the Amalgamation, and were paid to the Manager upon termination of the management agreement.

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

General and administrative

For Q4 2017 and 2017, the Company incurred general and administrative expenses of \$397 and \$1,727, respectively (Q4 2016 – \$218; 2016 – \$758). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage investments portfolio.

Net operating income from foreclosed properties held for sale

The Company consolidates the operating activities of the FPHFS. The net operating (loss) income from FPHFS for Q4 2017 and 2017 was \$(40) and \$70, respectively (Q4 2016 – \$3; 2016 – \$23).

Fair value adjustment on foreclosed properties held for sale

During Q4 2017 and 2017, the Company has recorded a negative fair market value adjustment of \$(190) on one of its FPHFS in Saskatchewan (Q4 2016 – \$500 ; 2016 – \$1,075).

Interest on credit facility – mortgage investments

The Company actively monitors its advances and repayments while efficiently using bankers' acceptances for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q4 2017 and 2017 relating to the credit facility were \$3.7 million and \$12.6 million, respectively (Q4 2016 – \$2.8 million; 2016 – \$6.3 million). The increase over the comparable 2016 periods is directly related to the increase in credit facility utilization and prime rate during 2017. The average credit utilization in 2017 was \$340.3 million compared to \$156.9 million in 2016. As at December 31, 2017, the Company had a credit facility balance of \$365.9 million (2016 – \$300.6 million).

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

Interest on credit facility – investment properties

As a co-owner of the Saskatchewan Portfolio, the Company entered into a credit facility agreement with a Schedule 1 Bank in August 2017. Under the terms of the agreement, the co-ownership have a maximum available credit of \$162.6 million. The gross initial advance on the credit facility was \$144.6 million. The Company's share of the initial advance was \$29.6 million plus \$109 of unamortized financing costs. The credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at

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the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$208.9 million. The Company's share of the carrying value is \$42.7 million. As at December 31, 2017, the Company had a credit facility balance of \$30.1 million (2016 - nil). Financing costs for Q4 2017 and 2017 relating to the credit facility were \$ 0.3million and \$0.5 million, respectively (Q4 2016 and 2016 - nil).

Interest on convertible debentures

The Company has \$34.5 million of 6.35% convertible unsecured subordinated debentures, \$45.8 million of 5.40% convertible unsecured subordinated debentures, \$46.0 million of 5.45% convertible unsecured subordinated debentures and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at December 31, 2017. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method.

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

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

Interest on the debentures is included in financing costs and is made up of the following:

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Interest on the convertible debentures	\$ 2,387	\$ 1,193	\$ 8,224	\$ 3,257
Amortization of issue costs	409	214	1,438	566
Accretion of the convertible debentures	90	41	314	135
	\$ 2,886	\$ 1,448	\$ 9,976	\$ 3,958

Earnings per share

For Q4 2017 and 2017, basic and diluted earnings per share were \$0.17 and \$0.70, respectively (Q4 2016 - \$0.18; 2016 - \$0.80).

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

TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

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Statements of Financial Position

Net mortgage investments

The balance of net mortgage investments is as follows:

	December 31, 2017		December 31, 2016	
Mortgage investments, including mortgage syndications	\$	1,554,369	\$	1,549,849
Mortgage syndication liabilities		(440,648)		(543,505)
		1,113,721		1,006,344
Interest receivable		(16,742)		(14,084)
Unamortized lender fees		5,584		6,736
Allowance for mortgage investments loss		1,081		1,150
Net mortgage investments	\$	1,103,644	\$	1,000,146

	Three months ended		Year ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net mortgage investments statistics and ratios¹				
Total number of net mortgage investments	114	122	114	122
Average net mortgage investment	\$ 9,686	\$ 8,198	\$ 9,686	\$ 8,198
Average net mortgage investment portfolio	\$ 1,098,109	\$ 1,016,152	\$ 1,147,004	\$ 701,263
Weighted average interest rate	6.9%	7.4%	7.0%	7.9%
Weighted average lender fees	1.0%	0.8%	1.0%	1.2%
Turnover ratio	10.8%	12.2%	40.3%	48.9%
Weighted average term (years)	2.9	2.3	2.9	2.4
Remaining term to maturity (years)	1.1	1.3	1.1	1.3
Net mortgage investments secured by				
cash-flowing properties	86.7%	85.8%	86.7%	86.7%
Weighted average loan-to-value	66.0%	65.7%	66.0%	66.4%

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

Portfolio allocation

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

(a) Security Position

	December 31, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
First mortgages	102	93.0%	102	84.1%
Non-first mortgages	12	7.0%	20	15.9%
	114	100.0%	122	100.0%

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(b) Region

	December 31, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
Ontario	54	55.0%	60	54.0%
Quebec	18	13.5%	21	12.8%
British Columbia	17	12.2%	13	12.4%
Alberta	9	12.1%	9	8.3%
Saskatchewan	9	3.6%	10	6.8%
Nova Scotia	2	1.6%	2	2.1%
Manitoba	2	0.2%	4	0.4%
Other	3	1.8%	3	3.2%
	114	100.0%	122	100.0%

(c) Maturity

	December 31, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
Maturing				
2018	58	50.0%	63	47.5%
2019	35	29.0%	37	31.2%
2020	17	18.0%	17	15.3%
2021	3	2.9%	2	2.9%
2022 and thereafter	1	0.1%	3	3.1%
	114	100.0%	122	100.0%

(d) Asset Type

	December 31, 2017		December 31, 2016	
	# of Net Investments	% of Net Investments	# of Net Investments	% of Net Investments
Multi-residential	62	50.1%	70	49.4%
Retail	15	14.1%	13	15.9%
Office	7	7.1%	7	5.8%
Hotels	4	8.2%	5	8.8%
Unimproved land	10	7.0%	9	5.7%
Retirement	6	9.3%	5	7.8%
Other-residential	1	1.5%	3	3.3%
Industrial	6	2.1%	7	2.4%
Self-storage	2	0.5%	1	0.6%
Single-family residential	1	0.1%	2	0.3%
	114	100.0%	122	100.0%

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Enhanced return portfolio

Enhanced return portfolio was \$70.5 million, which include \$57.9 (2016 – \$9.8 million) of other investments and \$12.6 (2016 – nil) of net equity in investment properties

Other investments may include collateralized loans, debentures, participating loans, debentures, joint ventures, finance lease receivables and marketable securities. As at December 31, 2017, the Company has \$44.9 million (2016 – \$9.8 million) of collateralized loan investments, \$5.9 million (2016 – nil) of financing lease receivable, \$3.1 million of marketable securities, \$2.2 million (2016 – nil) of indirect development property, and \$1.7 million of a participating loan (2016 – nil).

During Q4 2017 and 2017, other investments generated net interest income of \$1.3 million and \$4.2 million (Q4 2016 and 2016 – \$186), with a weighted average interest rate of 11.4% and 11.5%, respectively (Q4 2016 and 2016 – 10.5%). During Q4 2017 and 2017, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities, of \$84 and \$260 (Q4 2016 and 2016 – \$6), respectively. During Q4 2017 and 2017, the Company received total lender fees on other investments, of nil and \$357, respectively, (Q4 2016 and 2016 – \$143), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

During Q4 2017, the Company entered into a 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5,400 at the time of the transaction. Refer to note 4(e) of the Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

On August 16, 2017, the Company acquired a 20.46% undivided beneficial interest in the Saskatchewan Portfolio which is comprised of 14 investment properties totaling 1,079 units located in Saskatoon and Regina, Saskatchewan for a total purchase price of \$201.7 million (the Company's share is \$41.3 million). As at December 31, 2017, the Company's share of the investment properties has an aggregate fair value of \$42.7 million (December 31, 2016 – nil) and are pledged as security for the credit facility of the co-ownership. The Company is entitled to receive incremental profits from the excess returns generated over certain thresholds. Refer to notes 4(d) and 5(b) of the Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of \$440.6 million (December 31, 2016 – \$545.5 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time, and not necessarily indicative of a future trend.

Foreclosed properties held for sale

The fair value of the remaining FPHFS as at December 31, 2017 is \$0.3 million (December 31, 2016 – \$11.0 million) and the Company has engaged a third-party manager to operate the properties being held for sale.

During Q4 2017, the Company entered into a 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5,400 at the time of the transaction and realized a gain of \$146. Previously in 2017, the Company disposed a

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foreclosed property with a book value of \$5,000 resulting in a net loss of \$143 and issued the purchaser a \$4.4 million mortgage due in 2020.

During 2017, the Company has recorded a fair market value adjustment of \$(190) on one of its FPHFS (2016 – two properties, \$(1,075))

Allowance for mortgage investments loss

As at December 31, 2017, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment other than those previously recorded. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated.

During Q4 2017 and 2017, a collective impairment of \$300 and \$800 was recognized, respectively (Q4 2016 and 2016 – nil). As at December 31, 2017, the Company has no specific unrealized impairment allowance (2016 – \$900) and a collective unrealized allowance of \$1,081 (2016 – \$250).

During Q3 2017, the Company received \$38.9 million, representing full repayment of the original net mortgage principal, DIP financing and accrued interest, from first mortgage investments located in Saskatchewan that had filed for protection under the CCAA in December 2016. The repayment was made as a result of the sale of the underlying properties in the Saskatchewan Portfolio. Refer to note 4(d) and 5(b) of the Consolidated Financial Statements for the years ended December 31, 2017 and 2016.

During Q4 2017, the Company received full repayment and discharged a \$3.9 million first mortgage that was previously brought into receivership by the Company.

Net working capital

Net working capital increased by \$4.9 million to \$14.3 million at December 31, 2017 from \$9.4 million at December 31, 2016. The increase is mainly due to the higher amount of accrued interest receivable as a result of an increase in the mortgage and other investments.

Credit facility – mortgage investments

Concurrent with the Amalgamation, effective June 30, 2016, the Company entered into a credit facility agreement with a credit limit of \$350,000 and a maturity date of May 2018. The credit facility is secured by a general security agreement over the Company's assets and its subsidiaries. On June 20, 2017, the Company increased the credit limit by \$50,000 to \$400,000 through the utilization of the accordion feature. On December 21, 2017, the Company further amended the credit facility agreement (the "Amended Credit Agreement") for a credit limit of \$400,000 which may be increased by \$100,000 through an accordion feature, subject to certain conditions. The Amended Credit Agreement will mature on December 20, 2019.

The rates of interest and fees of the Amended Credit Agreement and previous credit agreements remain unchanged which are at either the prime rate of interest plus 1.25% per annum (December 31, 2016 – prime rate of interest plus 1.25% per annum) or

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bankers' acceptances with a stamping fee of 2.25% (December 31, 2016 – 2.25%), and standby fee of 0.5625% per annum (December 31, 2016 – 0.5625%) on the unutilized credit facility balance. As at December 31, 2017, the Company's qualified credit facility limit is \$392,536 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at December 31, 2017, the Company has incurred financing costs of \$3,748 relating to the credit facility, which includes upfront fees, legal and other costs. During the year ended December 31, 2017, the Company incurred additional financing costs of \$1,607, the majority of which relates to the exercise of the accordion feature. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation had been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2017, included in financing costs is interest on the credit facility of \$11,376 (2016 – \$5,506) and financing costs amortization of \$1,243 (2016 – \$775).

Credit facility – investment properties

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement. Under the terms of the agreement, the co-ownerships have a maximum available credit of \$162.6 million. The gross initial advance on the credit facility by the co-owners was \$144.6 million. The company's share of the initial advance was \$29.6 million plus \$109 of unamortized financing costs. This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$208.9 million. As at December 31, 2017 \$147.5 million was outstanding on the credit facility and the Company's share of the outstanding amount is \$30.2 million. For the year ended December 31, 2017, included in financing costs is interest on the credit facility of \$432 (2016 – nil) and financing costs amortization of \$23 (2016 – nil).

Convertible debentures

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

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

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

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

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

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

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

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

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

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$0.6 million, has been recorded as equity with the remainder allocated to long-term debt. During the three months period ended June 30, 2017, the Company revised its estimate of the liability component to adjust for an immaterial amount resulting in the allocation to equity being reduced from \$1.7 million to \$0.6 million. The discount on the debentures is

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being accreted such that the liability at maturity will equal the face value of \$46.0 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

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

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

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

Shareholders' equity

(a) Common shares

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

As a result of the Amalgamation, 40,523,728 of the Company's common shares were issued to shareholders of TMIC at a ratio of one-to-one; and 32,551,941 of the Company's common shares were issued to shareholders of TSMIC at an exchange ratio of 1:1.035. The Company also issued 782,830 common shares to the Manager in connection with the termination of management contracts with TMIC.

(b) Dividends

The Company intends to pay dividends monthly within 15 days following the end of each month. For the year ended December 31, 2017, TF declared dividends of \$50.7 million or \$0.685 per common shares (2016 – \$39.9 million, \$0.702 per share). As at December 31, 2017, \$4.3 million in aggregate dividends (December 31, 2016 – \$4.2 million) was payable to the holders of common shares of the Company. Subsequent to December 31, 2017, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on February 15, 2018 to the common shareholders of record on January 31, 2018.

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(c) Dividend reinvestment plan

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

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provides eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be issued from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. During Q4 2017 and 2016, nil and 37,603 common shares were purchased on the open market (Q4 2016 – 116,428; 2016 – 382,306), and 109,781 and 418,857 (Q4 2016 and 2016 – nil) were purchased from treasury, respectively.

(d) Non-executive director deferred share unit plan

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

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

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

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

For the year ended December 31, 2017, 22,308 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$205 based on a Fair Market Value of \$9.17 per common share. As at December 31, 2017, \$45 in quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2017 at the Fair Market Value.

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STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for 2017 was \$69.5 million (2016 – \$41.4 million).

Cash (used in) from financing activities

Cash used in financing activities for 2017 and cash from financing activities for 2017 consisted of the Company's net advances on the operating credit facility of \$65.3 million (2016 - \$65.1 million of net advances) and advances on investment properties credit facility of \$30.2 million (2016 – nil). The company received proceeds of \$86.4 million (2016 – \$43.5 million) from the issuance of convertible debentures after issue costs. The Company paid interest on the debentures and credit facilities of \$19.8million (2016 – \$10.2 million), common share dividends of \$46.5 million (2016 – \$39.7 million) and repurchased common share of \$0.3 million (2016– nil). The net cash provided by financing activities for 2017 was \$115.2 million (2016 – \$58.8 million).

Cash used in investing activities

Net cash used in investing activities in 2017 was \$184.1million (2016 – \$100.3 million) and consisted of the funding of net mortgage investments of \$474.8 million (2016 – \$430.8 million), offset by repayments of net mortgage investments of \$374.0million (2016 – \$339.6 million), funding of other investments of \$54.0 million (2016 –9.8 million), offset by repayments of other investments of \$11.2 million (2016 – nil), acquisition of investment properties of \$41.3 million (2016 – nil) and proceeds from disposition of FPHFS of \$951 (2016 – \$720).

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QUARTERLY FINANCIAL INFORMATION

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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net investment income ¹	\$ 23,178	\$ 23,547	\$ 21,448	\$ 20,766	\$ 20,583	\$ 19,119	\$ 10,922	\$ 10,798
Net rental income	99	94	—	—	—	—	—	—
Expenses ²	(3,633)	(3,809)	(3,091)	(3,223)	(2,643)	(2,695)	(2,418)	(2,435)
Income from operations ¹	19,644	19,832	18,357	17,543	17,940	16,424	8,504	8,363
Net operating gain (loss) from FPHFS	(40)	27	19	64	3	53	(39)	6
Fair value adjustment of FPHFS	146	(193)	(143)	—	(500)	(575)	—	—
Non-recurring transaction costs relating to the Amalgamation	—	—	—	—	(84)	—	6,143	—
Financing costs:								
Interest on credit facility	(3,987)	(3,519)	(2,831)	(2,738)	(2,833)	(2,321)	(600)	(527)
Interest on convertible debentures	(2,887)	(2,899)	(2,267)	(1,924)	(1,448)	(1,178)	(666)	(665)
Total financing costs	(6,874)	(6,418)	(5,098)	(4,662)	(4,281)	(3,499)	(1,266)	(1,192)
Total net income and comprehensive income (basic)	\$ 12,876	\$ 13,248	\$ 13,135	\$ 12,945	\$ 13,078	\$ 12,403	\$ 13,342	\$ 7,177
Total net income and comprehensive income (diluted)	\$ 15,080	\$ 15,468	\$ 14,589	\$ 13,695	\$ 14,526	\$ 13,581	\$ 14,009	\$ 7,177
Earnings per share (basic)	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.33	\$ 0.18
Earnings per share (diluted)	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.32	\$ 0.18
Adjusted earnings per share (basic and diluted)¹	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.18	\$ 0.18
Distributable income¹	\$ 13,681	\$ 14,091	\$ 14,080	\$ 13,410	\$ 13,905	\$ 13,878	\$ 7,607	\$ 7,246
Distributable income per share¹	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.18

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

2 Amounts include provision for mortgage investments loss.

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

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

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- (v) Q2 2016 and Q4 2016 includes one-time amounts relating to the Amalgamation which includes termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain.

RELATED PARTY TRANSACTIONS

As at December 31, 2017, Due to Manager includes mainly management and servicing fees payable of \$1.1 million (December 31, 2016 - \$0.8 million).

As at December 31, 2017, included in other assets is \$2.4 million (December 31, 2016 - \$0.8 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

As at December 31, 2017, the Company has five mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage investment with a total gross commitment of \$84.1 million (December 31, 2016 - \$84.1 million). The Company's share of the commitment is \$29.1 million (December 31, 2016 - \$29.1 million), of which \$15.1 million (December 31, 2016 - \$7.3 million) has been funded as at December 31, 2017. During the year ended December 2017, the Company has recognized net interest income of \$922 (2016 - \$243) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$15.6 million (December 31, 2016 - \$15.6 million). The Company's share of the commitment is \$6.0 million (December 31, 2016 - \$6.0 million), of which \$3.6 million (December 31, 2016 - \$3.6 million) has been funded as at December 31, 2017. During the year ended December 31, 2017, the Company has recognized net interest income of \$341 (2016 - \$255) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$4.3 million (December 31, 2016 - \$6.0 million). The Company's share of the commitment is \$4.3 million (December 31, 2016 - \$5.1 million), of which \$2.0 million (December 31, 2016 - \$2.0 million) has been funded as at December 31, 2017. During the year ended December 31, 2017, the Company has recognized net interest income of \$156 (2016 - \$38) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2016 - \$1.9 million). The Company's share of the commitment is \$1.9 million (December 31, 2016 - \$1.9 million), of which \$1.9 million (December 31, 2016 - \$1.9 million) has been funded as at December 31, 2017. During the year ended December 31, 2017, the Company has recognized net interest income of \$115 (2016 - \$10) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$16.5 million (December 31, 2016 - nil). The Company's share of the commitment is \$2.5 million (December 31, 2016 - nil), of which \$2.4 million (December 31, 2016 - nil) has been funded as at December 31, 2017. During the year ended December 31, 2017, the Company has recognized net interest income of \$84 (2016 - nil) from this mortgage investment during the year.

As at December 31, 2017, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in 19 (December

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31, 2016 – 10) gross mortgage investments totaling \$358.0 million (December 31, 2016 – \$254.9 million). The Company's share in these gross mortgage investments is \$172.2 million (December 31, 2016 – \$109.5 million). Included in these amounts is one net mortgage investments (December 31, 2016 – 2) totaling \$5.7 million (December 31, 2016 – \$17.7 million) loaned to a limited partnership in which T4Q is invested.

As at December 31, 2017, the Company and T4Q invested in an indirect real estate development through a joint venture totaling \$2,214 (December 31, 2016 – nil).

As at December 31, 2017, the Company invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$1,710 or €1,144 (December 31, 2016 – nil), which has been included in other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.

As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. During the year ended December 31, 2017, Property Management Fees of \$52 was charged by the Manager to the Company (December 31, 2016 – nil). As at December 31, 2017, \$20 was payable to the Manager (December 31, 2016 – nil).

As part of the procedure to complete the Saskatchewan Portfolio acquisition, the Company, T4Q and a third-party co-owner acquired one of the investment properties from TC Core LP, a related party by virtue of common management, which had temporarily held the property to facilitate the transaction procedure.

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.

ACQUISITION OF TSMIC

On June 30, 2016 (the "Effective Date"), TMIC amalgamated with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") to form Timbercreek Financial Corp, under the laws of the Province of Ontario by Articles of Arrangement (the "Amalgamation"). As a result of the Amalgamation, the Company has become a leading non-bank commercial real estate lender. The synergies and scale of the Company will create a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

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

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

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

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

In connection with the Amalgamation:

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

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

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

COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgage investments and other investments. 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 consolidated 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 consolidated financial statements are as follows:

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

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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.

The information about the assumptions made in measuring fair value is included in the following notes:

Note 4 – Mortgage and other investments, including mortgage syndications;

Note 5 – Investment properties;

Note 6 – Foreclosed properties held for sale; and

Note 19 – Fair value measurements.

Mortgage and other investments

The Company is required to make an assessment of the impairment of mortgage and other investments. Mortgage and other investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: (i) payment default by a borrower which is not cured during a reasonable period; (ii) whether security of the mortgage is significantly negatively impacted by some events; and (iii) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

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

Convertible debentures

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

Business Combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 20 which was accounted for in accordance with IFRS 3 – Business Combinations ("IFRS 3"). The Manager considered the guidance in IFRS 3 in determining which entity is considered the "acquirer" based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

Accounting for acquisitions

The Company excised judgement in determining whether the acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, allocation of acquisition costs and whether or not goodwill is recognized. The Manager has determined the acquisitions to be asset purchases as the Company does not acquire an integrated set of processes as part of the transaction that is normally associated with a business combination.

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SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost.

Mortgage investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. 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 materially. The Company considers evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but is not yet identifiable at an individual mortgage level. Mortgage investments that are not individually significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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.

Other investments

Other investments may include investments such as collateralized loans, participating mortgages, debentures and marketable securities. Other investments, with the exception of marketable securities and debentures, are classified as loans and receivables and are measured at amortized cost. Marketable securities are classified at FVTPL.

Investment properties

(a) Income properties

The Company has elected to account for its investment properties using the fair value method. A property is determined to be an investment property when it is principally held to earn rental income and/or capital appreciation. Investment properties are

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initially measured at cost including transaction costs associated with acquiring the properties. Subsequent to initial recognition, the investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit or loss during the period in which they arise. The investment properties are measured at fair value based on available market evidence, which may be obtained from external appraisals. The Company may also use alternative valuation methods such as discounted cash flow projections or income capitalization methods where appropriate.

The fair value of the investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditures) that could be expected in respect of the investment properties. Subsequent capital expenditures are charged to the investment property only when it is probable that future economic benefits of the expenditure will flow to the Company and the cost can be measured reliably.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount and are recognized in the consolidated statement of net income and comprehensive income at the end of each reporting period of disposal.

(b) Property under development

Property under development for future use as investment property are accounted for as investment property under International Accounting Standard 40, Investment Property. Costs eligible for capitalization to property under development are initially recorded at cost, and subsequent to initial recognition are accounted for using the fair value method. At each reporting date, the property under development is recorded at fair value based on available market evidence. The related gain or loss in fair value is recognized in net income in the year which it arises.

The cost of property under development includes direct development costs, realty taxes and borrowing costs that are directly attributable to the development. Borrowing costs associated with direct expenditures on property under development are capitalized. The amount of borrow costs capitalized is determined by reference to specific to the project. Borrowing costs are capitalized from the commencement of the development until the date of practical completion.

Upon practical completion of a development, the development property is transferred to investment properties at the fair value on the date of practical completion. The Company considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs when completion of construction and receipt of all necessary occupancy and other material permits.

Joint arrangements

The Company is a co-owner of a portfolio of investment properties that are subject to joint control and has determined that all current joint arrangements are joint operations as the Company, through its subsidiaries, is the direct beneficial owner of the Company's interest in the investment properties. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to assets and obligations for the liabilities, relating to the arrangement. The Company recognizes its share of the assets, liabilities, revenue and expenses generated from the assets in proportion to its rights ((note 5(c)).

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Foreclosed properties held for sale

When the Company obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Company uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage investments to FPHFS. Net income or loss generated from FPHFS, if any, is recorded as net operating (gain) loss from FPHFS, while fair value adjustments on FPHFS are recorded separately.

Convertible debentures

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

At the date of issuance, the liability component of the 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.

Gross interest and other income

Gross interest and other income includes interest earned on the Company's mortgage and other investments, lender fees and interest earned on cash and cash equivalents. Interest income earned on mortgage and other investments is accounted for using the effective interest rate method. Lender fees, an integral part of the yield on mortgage and other investments, are amortized to profit and loss over the expected life of the specific mortgage and other investment using the effective interest rate method. Forfeited lender fees are taken to profit and loss at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

Leases

Leases are classified as financing leases if all the risks and rewards incidental to ownership of the leased asset are substantially transferred to the lessee. Otherwise they are classified as operating leases.

As lessor in a financing lease, a loan is recognized equal to the investment in the lease, which is calculated as the present value of the minimum payments to be received from the lessee, discounted at the interest rate implicit in the lease, plus any unguaranteed residual value the Company expects to recover at the end of the lease. Finance lease income is recognized in gross interest and other income, including mortgage syndications in the consolidated statement of net income and comprehensive Income.

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As a lessor in an operating lease, payments received are recognized in profit or loss on a straight-line basis over the lease term. Revenue from operating leases include rent, parking and other sundry revenue from investment properties.

Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum, as at the acquisition date, of the fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement, if applicable. Transaction and restructuring costs are expensed as incurred. The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their fair values as at the acquisition date. Goodwill, if any, is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) fair value of any existing equity interest in the acquiree, over the fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. a bargain purchase gain) is recognized in profit or loss immediately.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not classified as FVTPL, any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classifications of the Company's financial instruments are outlined in note 17.

Derecognition of financial assets and liabilities

(a) Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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The Company enters into transactions whereby it transfers mortgage investments recognized on its statement of financial position, but retains either all, substantially all, or a portion of the risks and rewards of the transferred mortgage investments. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(b) Financial liabilities

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

Foreign currency forward contract

The Company may enter into foreign currency forward contracts to economically hedge its foreign currency risk exposure of its mortgage and other investments that are denominated in foreign currencies. The value of forward currency contracts entered into by the Company is recorded as the difference between the value of the contract on the reporting period and the value on the date the contract originated. Any resulting gain or loss is recognized in the statement of net income and comprehensive income unless the foreign currency contract is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for the foreign currency contracts as an accounting hedge.

Income taxes

It is the intention of the Company to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or deferred taxes is required for the Company and its subsidiaries.

CHANGES IN ACCOUNTING POLICIES

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

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

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

On January 7, 2016, the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes

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arising from cash flow and non-cash changes. The Company has provided additional disclosure in note 6 of the consolidated financial statements to comply with the requirements.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

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

The amendments provide requirements on the accounting for:

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

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the new standard to have a material impact on the financial statements.

IFRS 9, Financial Instruments ("IFRS 9")

The Company will adopt IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 must be applied retrospectively with some exemptions.

The Company will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transition provision. Under this approach, the 2017 comparative period will not be restated and a cumulative transition adjustment to the opening retained earnings, if required, will be recognized at January 1, 2018.

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

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

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regardless of whether or not there has been an actual loss event. IFRS 9 requires the ECL model to consider past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a significant increase in credit risk since origination, and in calculating the amount of ECL.

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

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

The Company continues to refine its evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at December 31, 2017, the principal areas impacted are: classification of financial assets and impairment of financial assets. As at December 31, 2017, the Company identified a mortgage investment of \$72,300, including syndication balance of \$55,000, with profit participation features, which will be reclassified from amortized cost to FVTPL as this mortgage investment does not meet the 'solely for payments of principal and interest' requirement. The estimated fair value of this mortgage investment is not materially different from the amortized cost carrying value. In addition, the Company estimates the adoption of the new ECL model will not result in a material change to its current impairment provision. We continue to refine our assessment process which may change the actual impact on adoption.

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

IFRS 15, Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, and will replace all existing guidance in IFRS related to revenue, including (but not limited to) IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 15 Agreements for the Construction of Real Estate. IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The Company will adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018. The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at January 1, 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented. Management does not expect that the adoption of IFRS 15 will have a material impact on the financial statements. However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease (i.e. a non-lease component).

IFRS 16, Leases ("IFRS 16")

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

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This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

OUTSTANDING SHARE DATA

As at March 5, 2018, the Company's authorized capital consists of an unlimited number of common shares, of which 79,199,701 are issued and outstanding.

CAPITAL STRUCTURE AND LIQUIDITY

Capital structure

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

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

Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has a borrowing ability of \$400 million through its credit facility – mortgage investments and \$33.3 million through its credit facility – investment properties and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at December 31, 2017, the Company is in compliance with its credit facilities covenants and expects to remain in compliance going forward.

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

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The following are the contractual maturities of financial liabilities as at December 31, 2017, including expected interest payments:

	Carrying Values	Contractual cash flows	Within a year	Following year	3-5 years
Accounts payable and accrued expenses	\$ 5,426	\$ 5,426	\$ 5,426	\$ –	\$ –
Dividends payable	4,271	4,271	4,271	–	–
Due to Manager	1,140	1,140	1,140	–	–
Mortgage funding holdbacks	200	200	200	–	–
Prepaid mortgage interest	1,960	1,960	1,960	–	–
Credit facility – mortgage investments ¹	363,970	392,086	13,283	378,804	–
Credit facility – investment properties ²	30,076	32,103	1,196	30,906	–
Convertible debentures ³	163,946	187,002	42,048	52,135	92,819
Total liabilities	\$ 570,989	624,188	69,524	\$ 461,845	92,819
Unadvanced gross mortgage commitments ⁴	–	154,945	154,945	–	–
Total contractual liabilities	\$ 570,989	\$ 779,133	\$ 224,469	\$ 461,845	92,819

- 1 Credit facility – mortgage investments includes interest based upon the Q4 2017 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2019.
- 2 Credit facility – investment properties includes interest based upon the current prime interest rate plus 1.50%, assuming the outstanding balance is not repaid until its maturity of August 10, 2019.
- 3 The 2014 debentures are deemed to be current as they are redeemable on and after March 31, 2017, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, and the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.
- 4 Unadvanced mortgage commitments include syndication commitments from third party investors totaling \$60.8 million.

As at December 31, 2017, the Company had a cash position of \$700 (December 31, 2016 – \$61) and an unutilized credit facility – mortgage investments balance of \$34.1 million (December 31, 2016 – \$49.4 million) and unutilized credit facility – investment properties balance of \$3.1 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 in the unadvanced mortgage commitments, \$60.8 million of (December 31, 2016 – \$82.3 million) relates to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

FINANCIAL INSTRUMENTS

Financial assets

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

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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 mortgages 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, change in currency rates and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

(a) Interest-rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2017, \$130.7 million of net mortgage investments and \$8.1 million of other investments bear variable interest rates. \$109.3 million and \$6.3 million of net mortgage investments and other investments have a "floor or ceiling rate", respectively. If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments would be a decrease in net income of \$0.1 million or an increase in net income of \$0.7 million, respectively. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

The Company is also exposed to interest rate risk on the credit facilities, which have a balance of \$396.1 million as at December 31, 2017. Based on the outstanding credit facility balances as at December 31, 2017, and assuming they was outstanding for the entire period a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$2.0 million annually.

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

(b) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's is exposed to currency risk primarily from other investments that are

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denominated in a currency other than the Canadian dollar. The Company uses foreign currency forwards to economically hedge the variability of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward contracts, the Company buys or sells a currency against another currency at a set price on a future date.

As at December 31, 2017, the Company has net mortgage and other investments foreign denominated currencies of USD \$20.7 million and €1,144 (2016 – USD \$2.9 million). The Company has entered into a series of foreign currency contracts to reduce the Company's net exposure to foreign currency risk. As at December 31, 2017, the Company has six U.S. dollars currency contracts with an aggregate notional value of USD \$20.7 million, at a weighted average contract rate of 1.27 and maturity dates between January 2018 and May 2018, and two Euro currency contract with a notional value of €1,144 at a contract rate of 1.52 and maturity date in October 2018. As a result, the Company does not believe it is exposed to any significant foreign currency risk.

The fair value of the foreign currency forward contract as at December 31, 2017 is an asset of \$67 which is included in other assets. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

(c) Credit risk

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

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

The maximum exposure to credit risk at December 31, 2017 is the carrying values of its net mortgage and other investments, in addition to interest receivable recorded within other assets of \$0.9 million (December 31, 2016 – \$1.0 million), amounting to \$1,150 million (December 31, 2016 – \$1,025 million). The Company has recourse under these mortgage investments in the event of default by the borrower, in which case the Company would have a claim against the underlying collateral.

The Company is exposed to credit risk from the collection of accounts receivable from tenants. The Manager routinely obtains credit history reports on prospective tenants before entering into a tenancy agreement.

(c) Liquidity risk

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

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

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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 December 31, 2017 and, based on that evaluation, have concluded that the design of such disclosure controls and procedures was appropriate.

The Manager is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design of the Company's internal controls over financial reporting as at December 31, 2017 in accordance with the COSO Internal Control – Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment they determined that the design of the Company's internal controls over financial reporting was appropriate.

There were no changes made in our design of internal controls over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

ADDITIONAL INFORMATION

Phone

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

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

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Internet

Visit SEDAR at www.sedar.com or the Company's website at www.timbercreekfinancial.com

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