

Management's Discussion and Analysis

Timbercreek Financial

For the year ended December 31, 2018



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 and other investments 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 4, 2019. 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.

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, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2018 and 2017, 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.

- 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 interest rate of other investments – represents the weighted average of daily interest rates (not including lender fees) on the other interest bearing loan investments within the enhanced return portfolio for the daily period;
- Weighted average interest rate of all loans for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments and other interest bearing loan investments within the enhanced return portfolio 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;
- 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 of Timbecreek Mortgage Investment Corporation and Timbercreek Senior Mortgage Investment Corporation on June 30, 2016 (“Amalgamation”) and bargain purchase gain;
- Adjusted earnings per share – represents the total adjusted total net income and comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company’s ability to generate recurring cash flows for dividends by removing the effect of amortization, accretion, unrealized fair value adjustments, allowance 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 foreclose properties held for sale (“FPHFS”), fair value adjustment on FPHFS, allowance 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.

RECENT DEVELOPMENTS AND OUTLOOK

In 2018, against a backdrop of general equity market volatility, Timbercreek Financial reported strong financial results and delivered on its core objectives to protect investor capital and generate consistent distributable income through a high-quality, diversified portfolio of mortgages and other real estate investments on income-producing real estate. It was a record year for new investments, and the mortgage portfolio increased to \$1.2 billion at year end. In addition to the strong transaction activity, the Company was successful at transitioning a sizable portion of the portfolio to floating rate loans with rate floors to preserve net margins in a rising rates environment and protect against downside volatility. The transition to floating rate is partly responsible for the year-over-year increase in our average interest rate of 16 basis points.

During 2018, Timbercreek Financial further increased its capital base to support the expansion of the investment portfolio. In the fourth quarter, the Company completed a private placement offering of \$14.4 million. Borrower demand continues to be robust, which positions the Company well to continue to deliver on its investment objectives in 2019.

PORTFOLIO ACTIVITY

During Q4 2018, Timbercreek Financial funded 17 new mortgage investments totaling \$212.2 million and made additional advances of \$27.5 million. Portfolio turnover was 13.8%, compared with 12.1% in Q3 2018. The net value of our total mortgage portfolio, excluding syndications, was approximately \$1.2 billion at the end of Q4 2018, an increase of \$74 million from Q3 2018. Our draw on the credit facility (excluding the credit facility associated with investment properties) stood at \$478.1 million at the end of Q4 2018, compared to \$413.4 million at the end of Q3 2018. We continue to review a significant pipeline of quality investment opportunities. Timbercreek Financial competes based on customization, speed of execution and its long history and reputation in the market.

At the end of Q4 2018, the enhanced return portfolio was \$104.6 million, which included \$91.0 million of other investments and \$13.7 million of net equity in investment properties, and represented approximately 7.6% of the total assets net of syndications. This is an increase of \$4.2 million over Q3 2018, mainly due to the funding of three existing investments, investment properties and an indirect real estate development.

We believe Timbercreek Financial offers investors an attractive yield with a superior risk profile. Our risk management strategy includes a focus on lending to income-producing assets and an emphasis on first mortgages. Our exposure to first mortgages was 93.2% of the net mortgage portfolio at year end, up from 91.5% in Q3 2018. Our weighted average loan-to-value ratio was 67.1%, similar to Q3 2018 and below our internal target of 70%. Our weighted average interest rate on all loans was 7.6% in Q4 2018, up from 7.5% in Q3 2018. The weighted average interest rate on all loans on December 31, 2018 was 7.5%.

In recent quarters, we have increased the use of floating rate loans with rate floors, which reduces margin pressure within our mortgage portfolio in a rising interest rate environment and protects against downside volatility. As at December 31, 2018, 57.7% of the total loan portfolio was invested in floating rate loans compared to 12.1% as at December 31, 2017.

Although higher rates can be obtained by investing in higher risk loans, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings. At year end, 87.5% of the mortgage investments were secured by income-producing properties, which underscores our focus on cash-flowing properties as a risk management strategy. Approximately 40.1% of the portfolio at year end was secured by multi-residential

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real estate (apartment buildings), which is a stable asset class with predictable cash-flow streams. Regulatory changes, including the B20 guidelines, have resulted in some residential-focused lenders shifting capital and exposure to commercial assets such as apartment buildings. Timbercreek Financial continues to compete effectively for these assets based on customization, speed of execution and its long history and reputation in the multi-family sector.

The net mortgage portfolio remains heavily weighted towards Canada's largest provinces, with approximately 93.0% of the mortgage portfolio invested in Ontario, British Columbia, Alberta and Quebec, the majority of which are in urban markets that generally experience better real estate liquidity and thus offer a better risk profile. The percentage of assets invested in British Columbia increased to 23.5% from 12.2% at the end of 2017, as the Company continued to capitalize on several attractive financing opportunities in the Vancouver area with long-standing clients. In addition, the Company increased its exposure in Alberta from 12.1% to 20.9%, as that market continues to improve and competition remains limited, delivering strong risk adjusted returns.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	December 31, 2018	December 31, 2017	December 31, 2016
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 1,796,822	\$ 1,554,369	\$ 1,549,849
Other investments ¹	\$ 90,957	\$ 57,934	\$ 9,828
Investment properties	\$ 46,494	\$ 42,748	\$ —
Total assets	\$ 1,945,031	\$ 1,664,759	\$ 1,573,970
Credit facility	\$ 508,939	\$ 394,046	\$ 299,000
Convertible debentures	\$ 131,597	\$ 163,946	\$ 76,757
Total liabilities	\$ 1,229,066	\$ 1,011,637	\$ 927,298
CAPITAL STRUCTURE			
Shareholders' equity	\$ 715,965	\$ 653,122	\$ 646,672
Convertible debentures, par ¹	\$ 136,800	\$ 171,300	\$ 80,300
Credit facility limit	\$ 533,277	\$ 433,277	\$ 350,000
Leverage ¹	47.3%	46.4%	37.0%
COMMON SHARE INFORMATION			
Number of common shares outstanding	81,632,844	74,277,356	73,858,499
Closing trading price	\$ 8.75	\$ 9.62	\$ 8.72
Market capitalization	\$ 714,287	\$ 714,548	\$ 644,046

¹ Refer to non-IFRS measures section.

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OPERATING RESULTS

	Three months ended		Year ended December 31,		
	December 31,		2018	2017	2016
	2018	2017	2018	2017	2016
Net investment income	\$ 25,169	\$ 23,178	\$ 94,958	\$ 88,937	\$ 61,422
Net rental income	\$ 358	\$ 99	\$ 821	\$ 193	\$ —
Income from operations	\$ 21,661	\$ 19,644	\$ 81,003	\$ 75,374	\$ 51,231
Other income, net	\$ 1,217	\$ —	\$ 1,217	\$ —	\$ —
Total net income and comprehensive income	\$ 15,263	\$ 12,876	\$ 53,068	\$ 52,204	\$ 45,999
Earnings per share (basic) ²	\$ 0.19	\$ 0.17	\$ 0.67	\$ 0.70	\$ 0.80
Earnings per share (diluted) ²	\$ 0.18	\$ 0.17	\$ 0.67	\$ 0.70	\$ 0.80
Adjusted total net income and comprehensive income ¹	N/A	N/A	N/A	N/A	\$ 39,940
Adjusted earnings per share (basic) ¹	N/A	N/A	N/A	N/A	\$ 0.70
Adjusted earnings per share (diluted) ¹	N/A	N/A	N/A	N/A	\$ 0.70
Dividends to shareholders	\$ 14,076	\$ 12,769	\$ 54,890	\$ 50,736	\$ 39,895
Dividends per common share	\$ 0.173	\$ 0.172	\$ 0.692	\$ 0.685	\$ 0.702
Payout ratio on earnings per share ¹	92.2%	99.2%	103.4%	97.2%	86.7%
Distributable income ¹	\$ 16,302	\$ 13,681	\$ 60,105	\$ 55,262	\$ 42,636
Distributable income per share ^{1,3}	\$ 0.20	\$ 0.18	\$ 0.76	\$ 0.75	\$ 0.74
Payout ratio on distributable income ^{1,3}	86.3%	93.3%	91.3%	91.8%	93.5%

¹ Refer to non-IFRS measures section.

² Excluding other income, net, the both basic and diluted earnings per share would have been \$0.17 and \$0.65 and payout ratio on earnings per share would have been 100.2% and 105.9% for three months and year ended December 31, 2018, respectively.

³ Excluding other income, net, the distributable income per share would have been \$0.19 and \$0.74 and payout ratio on distribution income would have been 93.3% and 93.2% for three months and year ended December 31, 2018, respectively.

For the three months ended December 31, 2018 (“Q4 2018”) and December 31, 2017 (“Q4 2017”)

- The Company funded 17 new net mortgage investments (Q4 2017 – 11) totaling \$212.2 million (Q4 2017 – \$100.9 million), made additional advances on existing mortgage investments totaling \$27.5 million (Q4 2017 – \$39.6 million) and received full repayments on 14 mortgage investments (Q4 2017 – 13) and partial repayments totaling \$165.5 million (Q4 2017 – \$119.1 million). As a result, the net mortgage portfolio, net of foreign exchange translation gain of \$0.6 million, as at December 31, 2018 has increased by \$74.8 million to \$1,211.0 million (September 30, 2018 – \$1,136.2 million), or 6.6% from September 30, 2018.
- Other investments within the enhanced return portfolio was \$91.0 million, including an allowance for credit loss of \$215 (September 30, 2018 - \$87.2 million and \$233, respectively). Net increase of \$3.7 million in the quarter was mainly due to \$2.0 million in loan repayments, offset by \$4.8 million in loan advances.
- Net investment income earned was \$25.2 million (Q4 2017 - \$23.2 million), an increase of \$2.0 million, or 8.6% from Q4 2017, mainly due to an increase in average net mortgage balance of \$1,169.7 million compared to \$1,098.1 million during Q4 2017, increase in weighted average interest rate, and increase of income generated from other investments within the enhanced return portfolio.
- The weighted average interest rate of all loans during the fourth quarter was 7.6% (Q4 2017 - 7.1%) compared to 7.5% in Q3 2018.
- 57.7% of the total loan portfolio was invested in loans with floating rates (Q4 2017 - 12.1%) compared to 43.4% in Q3 2018.

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- Non-refundable cash lender fees received were \$2.4 million (Q4 2017 – \$1.8 million), for a weighted average lender fees on mortgage investments of 0.9% (Q4 2017 – 1.0%).
- The Company generated income from operations of \$21.7 million (Q4 2017 – \$19.6 million), an increase of \$2.1 million or 10.3% from Q4 2017.
- The Company generated net income and comprehensive income of \$15.3 million (Q4 2017 – \$12.9 million) or earnings per share \$0.19, basic and \$0.18 diluted (Q4 2017 – \$0.17, basic and diluted). The Company declared \$14.1 million in dividends (Q4 2017 – \$12.8 million) to common shareholders, a payout ratio of 92.2% (Q4 2017 – 99.2%) on an earnings per share basis.
- The Company generated distributable income of \$16.3 million (Q4 2017 – \$13.7 million) or distributable income per share of \$0.20 (Q4 2017 – \$0.18), a payout ratio of 86.3% (Q4 2017 – 93.3%) on a distributable income basis.
- During Q4 2018, the Company issued 57,500 of common shares for gross proceeds of \$534 at an average price of \$9.28 per common share and paid \$11 in commission to the agent, pursuant to the equity distribution agreement for the Company's ATM Program dated June 21, 2018.
- The Company completed a private placement offering on October 19, 2018 for gross proceeds of \$14.4 million at a price of \$9.22 and issued 1,561,331 of common shares as a result of the transaction.
- During Q4 2018, the Company recognized net other income of \$1.2 million, primarily from the recovery of HST credits from 2015 and prior.

For the years ended December 31, 2018 ("2018") and December 31, 2017 ("2017")

- The Company funded 56 new net mortgage investments (2017 – 47) totaling \$673.4 million (2017 – \$404.7 million), made additional advances on existing mortgage investments totaling \$124.3 million (2017 – \$128.2 million) and received full repayments on 46 mortgage investments (2017 – 55) and partial repayments totaling \$691.4 million (2017 – \$428.8 million). As a result, the net mortgage investment portfolio as at December 31, 2018 has increased by \$107.4 million, net of foreign exchange translation gain of \$1.1 million, which is hedged through currency contracts, to \$1,211.0 million (December 31, 2017 – \$1,103.6 million), or 9.7% from December 31, 2017.
- Other investments within the enhanced return portfolio was \$91.0 million (December 31, 2017 - \$57.9 million), a net increase of \$33.1 million in 2018 (2017 – \$48.1 million). Net increase was primarily due to \$16.5 million in loan repayments, offset by \$43.9 million in loan advances, funding of \$2.7 million in a participating loan, \$3.1 million from disposition of marketable securities and funding of \$5.3 million in an indirect real estate development through a joint venture.
- Net investment income earned was \$95.0 million (2017 – \$88.9 million), an increase of \$6.1 million, or 6.9% from 2017 mainly due to an increase in weighted average interest rate on all loans to 7.4% (YTD 2017 - 7.2%) and increase in other investments within the enhanced return portfolio to \$91.0 million (December 31, 2017 - \$57.9 million).
- The Company generated income from operations of \$81.0 million (2017 – \$75.4 million), an increase of \$5.6 million or 7.5% from 2017.
- The Company generated net income and comprehensive income of \$53.1 million (2017 – \$52.2 million) or earnings per share \$0.67, basic and diluted (2017 – \$0.70, basic and diluted). The Company declared \$54.9 million in dividends (2017 – \$50.7 million) to common shareholders resulting in a payout ratio of 103.4% (2017 – 97.2%) on an earnings per share basis.
- The Company generated distributable income of \$60.1 million (2017 – \$55.3 million) or distributable income per share of \$0.76 (2017 – \$0.75) resulting in a payout ratio of 91.3% (2017 – 91.8%) on a distributable income basis.
- On February 7, 2018 and February 16, 2018, the Company completed a public offering of 4,302,000 plus an over-allotment option of 545,300 common shares, respectively, at \$9.30 per common share for total net proceeds of \$42.3 million.
- On February 13, 2018, the Company completed the exercise of a portion of the accordion feature, which increased the commitments of the lenders by \$40.0 million and on November 16, 2018, the Company exercised remainder portion of the accordion feature of \$60.0 million, bringing the credit limit to \$500.0 million.
- On June 21, 2018, the Company entered into an equity distribution agreement with a Canadian financial institution ("ATM Program"), having an aggregate offering amount up to \$70 million for sale to the public.
- During 2018, the Company issued 458,100 of common shares for gross proceeds of \$4.3 million at an average price of \$9.33 per common share and paid \$87 in commission to the agent, pursuant to the ATM Program.
- On July 3, 2018, the Company completed payment of \$35.1 million for the redemption of the 6.35% Convertible Unsecured Debentures.
- On October 19, 2018, the Company completed a private placement offering of 1,561,331 common shares at \$9.22 per common share for total net proceeds of \$13.9 million.
- During 2018, the Company recognized net other income of \$1.2 million, primarily from the recovery of HST credits from 2015 and prior.

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ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income and comprehensive income	\$ 15,263	\$ 12,876	\$ 53,068	\$ 52,204
Less: amortization of lender fees	(2,318)	(2,193)	(8,328)	(7,858)
Add: lender fees received	2,359	1,766	11,342	6,802
Add: amortization of financing costs, credit facility	354	352	1,248	1,266
Add: amortization of financing costs, debentures	299	409	1,767	1,438
Add: accretion expense, debentures	62	91	384	314
Add: unrealized fair value (gain) loss on FPHFS ¹	29	—	109	193
Add: net operating loss (gain) on FPHFS	15	41	39	(69)
Add: net realized and unrealized foreign exchange (gain) loss	—	—	—	129
Add: unrealized loss (gain) on equity investments	112	39	(74)	43
Add: allowance for mortgage investments loss	127	300	550	800
Distributable income ²	16,302	13,681	60,105	55,262
Less: dividends on common shares	(14,076)	(12,769)	(54,890)	(50,736)
Under distribution	\$ 2,226	\$ 912	\$ 5,215	\$ 4,526
Distributable income per share ³	\$ 0.20	\$ 0.18	\$ 0.76	\$ 0.75

¹ Excludes net realized gain of \$3 from sale of FPHFS in year ended December 31, 2017.

² Refer to non-IFRS measures section.

³ Excluding other income, net, the distributable income per share would have been \$0.19 and \$0.74 for three months and year ended December 31, 2018, respectively.

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.

STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

	Three months ended		% Change	Year ended		% Change
	December 31,			December 31,		
	2018	2017		2018	2017	
Net investment income	\$ 25,169	\$ 23,178	8.6 %	\$ 94,958	\$ 88,937	6.8 %
Net rental income	358	99	261.6 %	821	193	325.4 %
Expenses ¹	(3,866)	(3,633)	(6.4)%	(14,776)	(13,756)	(7.4)%
Income from operations	21,661	19,644	10.3 %	81,003	75,374	7.5 %
Other income, net	1,217	—	100.0 %	1,217	—	100.0 %
Net operating (loss) income from foreclosed properties held for sale	(15)	(40)	62.5 %	(39)	70	(155.7)%
Fair value loss on foreclosed properties held for sale	(29)	146	(119.9)%	(109)	(190)	42.6 %
Financing costs:						
Interest on credit facility	(5,368)	(3,986)	(34.7)%	(18,376)	(13,074)	(40.6)%
Interest on convertible debentures	(2,203)	(2,886)	23.7 %	(10,628)	(9,976)	(6.5)%
Net income and comprehensive income (basic)	\$ 15,263	\$ 12,878	18.5 %	\$ 53,068	\$ 52,204	1.7 %
Net income and comprehensive income (diluted)	\$ 17,466	\$ 15,080	15.8 %	\$ 59,094	\$ 59,466	(0.6)%
Earnings per share (basic) ²	\$ 0.19	\$ 0.17		\$ 0.67	\$ 0.70	
Earnings per share (diluted) ²	\$ 0.18	\$ 0.17		\$ 0.67	\$ 0.70	

¹ Amounts include allowance for mortgage investments loss.

² Excluding other income, net, basic and diluted earnings per share would have been \$0.17 and \$0.65

Net investment income²

For Q4 2018 and 2018, the Company earned net investment income of \$25.2 million and \$95.0 million (Q4 2017 – \$23.2 million; 2017 – \$88.9 million). Net investment income includes the following:

a. Interest income

During Q4 2018 and 2018, the Company earned \$22.7 million and \$86.0 million (Q4 2017 – \$20.0 million; 2017 – \$78.9 million) of interest income on net mortgage investments and collateralized loans in the enhanced return portfolio. The weighted average interest rate on net mortgage investments during Q4 2018 increased to 7.3% compared to 6.9% in Q4 2017 and increased to 7.2% in 2018 compared to 7.0% in 2017. During Q4 2018 and 2018, other investments generated net interest income of \$1.9 million and \$6.5 million (Q4 2017 - \$1.3 million and 2017 – \$4.4 million) with a weighted average interest rate of 11.2% and 11.4%, respectively (Q4 2017 - 11.4% and 2017 – 11.5%).

b. Lender fee income

During Q4 2018 and 2018, the Company received non-refundable cash lender fees of \$2.4 million and \$11.3 million (Q4 2017 – \$1.8 million; 2017 – \$6.8 million), or a weighted average lender fee of 0.9% and 1.1%, respectively (Q4 2017 – 1.0%; 2017 – 1.0%). 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 2018 and 2018, lender fees of \$2.3 million and \$8.3 million (Q4 2017 – \$2.2 million; 2017 – \$7.9 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.

c. Other income

During Q4 2018 and 2018, the Company earned other income of \$207 and \$605 (Q4 2017 - \$1.0 million; 2017 - \$2.1 million).

d. Other income, net

The Company earned one-time net other income of \$1.2 million, primarily from the recovery of HST credits from 2015 and prior.

Net rental income from investment properties

The net rental income from investment properties for Q4 2018 and 2018 was \$358 and \$821, respectively (Q4 2017 \$99 and 2017 – \$193).

Expenses

For Q4 2018 and 2018, the expense ratio was 1.1% and 1.0%, respectively (Q4 2017 and 2017 – 1.1% and 1.1%, respectively).

Management fees

The 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 are defined as the total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

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.

For Q4 2018 and 2018, the Company incurred management fees of \$3.1 million and \$11.9 million (Q4 2017 – \$2.8 million; 2017 – \$10.6 million). The increase is directly related to the increase in gross assets averaging \$1,268.7 million in 2018, compared to \$1,147.0 million in 2017.

Servicing fees

As part of the 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 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 2018 and 2018, the Company incurred \$163 and \$622, respectively (Q4 2017 and 2017 – \$97 and \$580) in servicing fees.

General and administrative

For Q4 2018 and 2018, the Company incurred general and administrative expenses of \$478 and \$1,725, respectively (Q4 2017 – \$397; 2017 – \$1,727). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage and other investments portfolio.

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 2018 and 2018 relating to the credit facility were \$5.2 million and \$17.2 million, respectively (Q4 2017 – \$3.7 million; 2017 – \$12.6 million). The increase over the comparable 2017 periods is directly related to the increase in credit facility utilization and prime rate during 2018. The average credit utilization in 2018 was \$384.9 million compared to \$340.3 million in 2017. As at December 31, 2018, the Company had a credit facility balance of \$478.1 million (December 31, 2017 - \$365.9 million).

As at December 31, 2018, the Company has incurred financing costs of \$4.9 million relating to the credit facility, which includes upfront fees, legal and other costs. During Q4 2018 and 2018, the Company incurred additional financing costs of \$857 and \$1,189, 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.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q4 2018 and 2018, included in financing costs is interest on the credit facility of \$4.8 million and \$16.0 million (Q4 2017 – \$3.3 million; 2017 – \$11.4 million) and financing costs amortization of \$348 and \$1.2 million (Q4 2017 – \$351; 2017 – \$1.3 million).

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. 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% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$227.2 million. The Company's share of the carrying value is \$46.5 million.

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As at December 31, 2018, the Company had a credit facility balance of \$32.8 million (December 31, 2017 - \$30.1 million). Financing costs for Q4 2018 and 2018 relating to the credit facility were \$176 and \$1.2 million, respectively (Q4 2017 and 2017 - \$455).

During the year ended December 31, 2018, the co-owners borrowed both LIBOR and prime rate loans from the credit facility. At the time of borrowing LIBOR loans, which are denominated in U.S. dollars, the co-owners concurrently entered into cross-currency swaps to effectively convert the LIBOR loans into Canadian Dollar Loans, which were unwound in December 2018. As at December 31, 2018, \$160.4 million of Canadian Dollar Loans were outstanding on the credit facility. The Company's share of the outstanding amount is \$32.8 million.

Earnings per share

For Q4 2018, basic and diluted earnings per share were \$0.19 and \$0.18 and for 2018, basic and diluted earnings per share were \$0.67 (Q4 2017 – basic and diluted earnings per share \$0.17; 2017 – basic and diluted earnings per share \$0.70).

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

STATEMENTS OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	December 31, 2018		December 31, 2017	
Mortgage investments, including mortgage syndications	\$	1,796,822	\$	1,554,369
Mortgage syndication liabilities		(575,040)		(440,648)
		1,221,782		1,113,721
Interest receivable		(20,578)		(16,742)
Unamortized lender fees		8,372		5,584
Allowance for mortgage investments loss		1,417		1,081
Net mortgage investments	\$	1,210,993	\$	1,103,644

	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net mortgage investments statistics and ratios¹				
Total number of net mortgage investments	124	114	124	114
Average net mortgage investment	\$ 9,762	\$ 9,686	\$ 9,762	\$ 9,686
Average net mortgage investment portfolio	\$ 1,169,696	\$ 1,098,109	\$ 1,131,531	\$ 1,147,004
Weighted average interest rate for the period	7.3%	6.9%	7.2%	7.0%
Weighted average lender fees	0.9%	1.0%	1.1%	1.0%
Turnover ratio	13.8%	10.8%	60.6%	40.3%
Remaining term to maturity (years)	1.2	1.1	1.2	1.1
Net mortgage investments secured by cash-flowing properties	87.5%	86.7%	87.5%	86.7%
Weighted average loan-to-value	67.1%	66.0%	67.1%	66.0%

¹ Refer to non-IFRS measures section.

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Portfolio allocation

The Company's net mortgage investments, excluding enhanced return portfolio, were allocated across the following categories:

a. Security position

	December 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
First mortgages	113	93.2%	102	93.0%
Non-first mortgages	11	6.8%	12	7.0%
	124	100.0%	114	100.0%

b. Region

	December 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Ontario	59	42.5%	54	55.0%
British Columbia	28	23.5%	17	12.2%
Alberta	13	20.9%	9	12.1%
Quebec	14	6.1%	18	13.5%
Other	10	7.0%	16	7.2%
	124	100.0%	114	100.0%

c. Maturity

Maturing	December 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
2018	0	0.0%	58	50.0%
2019	51	38.4%	35	29.0%
2020	51	40.9%	17	18.0%
2021	20	19.4%	3	2.9%
2022	2	1.3%	1	0.1%
2023 and thereafter	0	0.0%	0	0.0%
	124	100.0%	114	100.0%

d. Asset type

	December 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Multi-residential	65	40.1%	62	50.1%
Retail	19	18.8%	15	14.1%
Unimproved land	10	10.1%	10	7.0%
Hotels	4	4.9%	4	8.2%
Retirement	5	4.1%	6	9.3%
Industrial	8	4.8%	6	2.1%
Office	8	13.5%	7	7.1%
Self-storage	2	1.7%	2	0.5%
Other-residential	1	1.6%	1	1.5%
Single-family residential	2	0.4%	1	0.1%
	124	100.0%	114	100.0%

Enhanced return portfolio

As at December 31, 2018, enhanced return portfolio was \$104.6 million, which include \$91.0 million (December 31, 2017 – \$57.9 million) of other investments and \$13.7 million (December 31, 2017 - \$12.6 million) 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, 2018, the Company has \$72.8 million (December 31, 2017 – \$44.9 million) of collateralized loan investments, \$6.0 million (December 31, 2017 – \$5.9 million) of finance lease receivable, \$7.5 million (December 31, 2017 – \$2.2 million) of indirect development properties, \$4.6 million of a participating loan (December 31, 2017 – \$1.7 million) and no investment in marketable securities (December 31, 2017 – \$3.1 million).

During Q4 2018 and 2018, other investments generated net interest income of \$1.9 million and \$6.5 million (Q4 2017 - \$1.3 million and 2017 – \$4.2 million) with a weighted average interest rate of 11.2% and 11.4%, respectively (Q4 2017 - 11.4% and 2017 – 11.5%). During Q4 2018 and 2018, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities, of \$154 and \$488 (Q4 2017 – \$84 and 2017 – \$260), respectively. During Q4 2018 and 2018, the Company received total lender fees on other investments, of nil and \$683, respectively (Q4 2017 – nil and 2017 – \$357), 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 an 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5.4 million at the time of the transaction. Refer to note 4(e) of the Consolidated Financial Statements for the years ended December 31, 2018 and 2017.

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, 2018, the Company's share of the investment properties has an aggregate fair value of \$46.5 million (December 31, 2017 – \$42.7 million) 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 5 and 5(b) of the Consolidated Financial Statements for the period ended December 31, 2018 and December 31, 2017

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 \$575.0 million (December 31, 2017 – \$440.6 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.

Allowance for Credit Losses (“ACL”)

The allowance for credit losses is maintained at a level that we consider adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$1.6 million as at December 31, 2018 (December 31, 2017 - \$1.1 million, under IAS 39), of which \$1.4 million (December 31, 2017 - \$1.1 million, under IAS 39) was recorded in mortgage investments and \$215 (December 31, 2017 - \$nil, under IAS 39) recorded in other investments in our Consolidated Statement of Financial Position.

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Allowance for credit losses :

Multi-residential	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	\$ 851,402	\$ —	\$ 2,790	\$ 854,192
Mortgage syndication liabilities, including interest receivable	322,244	—	—	322,244
Net	529,158	—	2,790	531,948
Allowance for loan losses	627	—	3	630
Mortgage investments, net of allowance and mortgage syndications	528,531	—	2,787	531,318

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	853,383	—	37,790	891,173
Mortgage syndication liabilities, including interest receivable	253,694	—	—	253,694
Net	599,689	—	37,790	637,479
Allowance for loan losses	200	—	587	787
Mortgage investments, net of allowance and mortgage syndications	599,489	—	37,203	636,692

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	66,483	—	7,014	73,497
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	66,483	—	7,014	73,497
Allowance for loan losses	212	—	3	215
Other loan Investments, net of allowance and mortgage syndications	66,271	—	7,011	73,282

As at December 31, 2018, finance lease receivable (note 4(e) of consolidated financial statements for the period ended December 31, 2018) and unadvanced commitments (note 4(a) consolidated financial statements for the period ended December 31, 2018) are all considered to be in Stage 1 with minimal ECL.

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The changes in the allowance for credit losses are shown in the following tables.

Multi-residential	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	603	26	—	629
Allowance for credit losses				
Remeasurement	24	—	(23)	1
Transfer to/(from)				
Stage 1	—		—	—
Stage 2	—	(26)	—	(26)
Stage 3	—	—	26	26
Total allowance for credit losses	627	—	3	630
Fundings	340	—	—	340
Repayments	(340)	—	—	(340)
Balance at end of period	627	—	3	630

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	1	209	—	210
Allowance for credit losses				
Remeasurement	252	—	378	630
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	(209)	—	(209)
Stage 3	—	—	209	209
Total allowance for credit losses	253	—	587	840
Fundings	88	—	—	88
Repayments	(141)	—	—	(141)
Balance at end of period	200	—	587	787

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	232	—	—	232
Allowance for credit losses				
Remeasurement	(16)	—	—	(16)
Transfer to/(from)				
Stage 1	(3)	—	—	(3)
Stage 2	—	—	—	—
Stage 3	—	—	3	3
Total allowance for credit losses	213	—	3	216
Fundings	65	—	—	65
Repayments	(66)	—	—	(66)
Balance at end of period	212	—	3	215

The following table presents the gross carrying amounts of mortgage and other loan investments, net of syndication liabilities, subject to IFRS 9 impairment requirements by internal risk ratings used by the Company for credit risk management purposes.

The internal risk ratings presented in the table below are defined as follows:

Low Risk: Mortgage and loan investments that exceed the credit risk profile standard of the Company with a below average probability of default. Yields on these investments are expected to trend lower than the Company's average portfolio.

Medium-Low: Mortgage and loan investments that are typical for the Company's risk appetite, credit standards and retain a below average probability of default. These mortgage and loan investments are expected to have average yields and would represent a significant percentage of the overall portfolio.

Medium-High: Mortgage and loan investments within the Company's risk appetite and credit standards with an average probability of default. These investments typically carry attractive risk-return yield premiums.

High Risk: Mortgage and loan investments within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average probability of default. These mortgage and loan investments carry a yield premium in return for their incremental credit risk. These mortgage and loan investments are expected to represent a small percentage of the overall portfolio.

Default: Mortgage and loan investments that are 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when the Company has commenced enforcement remedies available to it under its contractual agreements.

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Multi-residential	Stage 1	Stage 2	Stage 3	Total
Low risk	221,309	—	—	221,309
Medium-Low risk	289,144	—	—	289,144
Medium-High risk	18,705	—	—	18,705
High risk	—	—	—	—
Default	—	—	2,790	2,790
Net	529,158	—	2,790	531,948
Allowance for loan losses	627	—	3	630
Mortgage investments, net of allowance and mortgage syndications	528,531	—	2,787	531,318

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Low risk	177,567	—	—	177,567
Medium-Low risk	341,418	—	—	341,418
Medium-High risk	66,644	—	—	66,644
High risk	14,060	—	—	14,060
Default	—	—	37,790	37,790
Net	599,689	—	37,790	637,479
Allowance for loan losses	200	—	587	787
Mortgage investments, net of allowance and mortgage syndications	599,489	—	37,203	636,692

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Low risk	—	—	—	—
Medium-Low risk	—	—	—	—
Medium-High risk	—	—	—	—
High risk	66,483	—	—	66,483
Default	—	—	7,014	7,014
Net	66,483	—	7,014	73,497
Allowance for loan losses	212	—	3	215
Other loan Investments, net of allowance and mortgage syndications	66,271	—	7,011	73,282

Net working capital

Net working capital increased by \$5.1 million to \$19.4 million at December 31, 2018 from \$14.3 million at December 31, 2017.

Credit facility (mortgage investments)

Currently, the Company has a \$500.0 million credit facility with 10 Canadian banks, secured by a general security agreement over the Company's assets and its subsidiaries. Originally, the Company entered into a credit facility agreement with a credit limit of \$350.0 million and a maturity date of May 2018. On June 20, 2017, the Company increased the credit limit by \$50.0 million to \$400.0 million, 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 \$400.0 million which may be increased by \$100.0 million through an accordion feature, subject to certain conditions. The credit facility will mature on December 20, 2019. On February 13, 2018, the Company completed the exercise of a portion of the accordion feature, which increased the credit limit by \$40.0 million to \$440.0 million. On November 16, 2018, the Company exercised remainder portion of the accordion feature which increased the credit limit by \$60.0 million to \$500.0 million, the Company further amended the credit facility agreement (the "Second Amending Agreement to Credit Agreement") and extended maturity date to December 20, 2020.

The rates of interest and fees of the Amended Credit Agreement and previous credit agreements remain unchanged which are either at the prime rate of interest plus 1.25% per annum (December 31, 2017 – prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2017 – 2.25%) and standby fee of 0.5625% per annum (December 31, 2017 – 0.5625%) on the unutilized credit facility balance. As at December 31, 2018, the Company's qualified credit facility limit is \$476.6 million and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at December 31, 2018, the Company has incurred inception to date financing costs of \$4.9 million relating to the credit facility, which includes upfront fees, legal and other costs. During the year ended December 31, 2018, the Company incurred financing costs of \$1.2 million, 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.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2018, included in financing costs is interest on the credit facility of \$16.0 million (2017 – \$11.4 million) and financing costs amortization of \$1.2 million (2017 – \$1.2 million).

Credit facility (investment properties)

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement with a Schedule 1 Bank. Under the terms of the agreement, the co-ownership has 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.

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% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$227.2 million. The Company's share of the carrying value is \$46.5 million. The co-owners of the Saskatchewan Portfolio (note 5) are each individually subject to financial covenants outlined in the investment properties credit facility agreement. Notwithstanding, the lender's recourse is limited to each co-owner's proportionate interest in the investment properties credit facility. During the year ended December 31, 2018, the co-owners borrowed to LIBOR and prime rate loans from the credit facility. At the time of borrowing LIBOR loans, which are denominated in U.S. dollars, the co-owners concurrently entered

into cross-currency swaps to effectively converting the LIBOR loans into Canadian Dollar Loans, which were unwound in December 2018. As at December 31, 2018, \$160.4 million of Canadian dollar loans were outstanding on the credit facility. The Company's share of the outstanding amount is \$32.8 million.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2018, included in financing costs is interest on the credit facility of \$1.1 million (2017 - \$432) and financing costs amortization of \$52 (2017 - \$23).

SHAREHOLDERS' EQUITY

a. Common shares

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

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

On February 7, 2018 and February 16, 2018, the Company completed a public offering of 4,302,000 plus an over-allotment option of 545,300 common shares, respectively, at \$9.30 per common share for total net proceeds of \$42.3 million.

On June 21, 2018, the Company entered into an equity distribution agreement with a Canadian financial institution to offer common shares, having an aggregate offering amount of up to \$70 million for sale to the public.

On October 19, 2018, the Company completed a private placement offering of 1,561,331 common shares at \$9.22 per common share for total net proceeds of \$13.9 million.

During 2018, the Company issued 458,100 of common shares for gross proceeds of \$4.3 million at an average price of \$9.33 per common share and paid \$87 in commission to the agent, pursuant to the ATM Program's equity distribution agreement.

b. Dividends

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q4 2018 and 2018, the Company declared dividends of \$14.1 million and \$54.9 million, or \$0.173 and \$0.692 per the Company common share (Q4 2017 – \$12.8 million, \$0.172 per share; 2017 – \$50.7 million, \$0.685 per share).

As at December 31, 2018, \$4.7 million in aggregate dividends (December 31, 2017 – \$4.3 million) was payable to the holders of common shares by the Company. Subsequent to December 31, 2018, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on February 15, 2019 and March 15, 2019 to the common shareholders of record on January 31, 2019 and February 28, 2019, respectively.

c. Dividend reinvestment plan ("DRIP")

The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into 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 purchased 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 2018 and 2018, no common shares were purchased on the open market (Q4 2017 – nil; 2017 – 37,603), and 105,175 and 483,335 (Q4 2017 - 109,781 and 2017 – 418,857) were issued from treasury.

d. Non-executive director deferred share unit plan ("DSU")

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. Until June 30, 2018, each director was 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.

During Q4 2018 and 2018, 7,751 and 23,848 units were issued (2017 - 4,376 and 22,308) and as at December 31, 2018, 51,891 units were outstanding. (December 31, 2017 – 28,043). No DSUs were exercised or canceled, resulting in a DSU expense of \$240 (2017 – \$205). As at December 31, 2018, \$71 in quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2018.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for 2018 was \$78.0 million (2017 – \$69.5 million).

Cash from financing activities

Cash used in financing activities for 2018 and cash from financing activities for 2018 consisted of the Company's net advance on the operating credit facility of \$112.2 million (2017 – \$65.3 million of net advances) and net advances on investment properties credit facility of \$2.6 million (2017 – \$30.2 million). The Company received net proceeds of \$60.3 million from the issuance of common shares. The Company paid interest on the debentures and credit facilities of \$29.8 million (2017 – \$19.8 million), repaid \$34.5 million for the redemption of the 6.35% Convertible Unsecured Debentures and common share dividends of \$50.1 million (2017 – \$46.5 million). There was no repurchased common shares (2017 – \$331). The net cash provided by financing activities for 2018 was \$60.7 million (2017 – \$115.2 million).

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Management's Discussion and Analysis

For the year ended December 31, 2018

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

Cash used in investing activities

Net cash used in investing activities in 2018 was \$138.9 million (2017 – \$184.1 million) and consisted of the funding of net mortgage investments of \$792.7 million (2017 – \$474.8 million), offset by repayments of net mortgage investments of \$690.3 million (2017 – \$374.0 million), funding of other investments of \$51.9 million (2017 – \$54.0 million), offset by repayments of other investments of \$19.6 million (2017 – \$11.2 million), net addition to investment properties of \$3.6 million (2017 – \$41.3 million), and net proceeds from disposition of foreclosed properties held for sale of \$227 (2017- \$1.0 million).

QUARTERLY FINANCIAL INFORMATION

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net investment income ¹	\$ 25,169	\$ 24,465	\$ 23,477	\$ 21,847	\$ 23,178	\$ 23,547	\$ 21,448	\$ 20,766
Net rental income	358	135	179	149	99	94	—	—
Expenses ²	(3,866)	(3,774)	(3,752)	(3,386)	(3,633)	(3,809)	(3,091)	(3,223)
Income from operations ¹	21,661	20,826	19,904	18,610	19,644	19,832	18,357	17,543
Other income, net	1,217	—	—	—	—	—	—	—
Net operating (loss) gain from FPHFS	(15)	(18)	(5)	(2)	(40)	27	19	64
Fair value (loss) gain of FPHFS	(29)	(40)	(40)	—	146	(193)	(143)	—
Financing costs:								
Interest on credit facility	(5,368)	(4,836)	(4,111)	(4,061)	(3,986)	(3,519)	(2,831)	(2,738)
Interest on convertible debentures	(2,203)	(2,224)	(3,321)	(2,880)	(2,886)	(2,899)	(2,267)	(1,924)
Total financing costs	(7,571)	(7,060)	(7,432)	(6,941)	(6,872)	(6,418)	(5,098)	(4,662)
Total net income and comprehensive income (basic)	\$ 15,263	\$ 13,708	\$ 12,427	\$ 11,667	\$ 12,876	\$ 13,248	\$ 13,135	\$ 12,945
Total net income and comprehensive income (diluted)	\$ 17,466	\$ 15,911	\$ 12,427	\$ 12,359	\$ 15,080	\$ 15,468	\$ 14,589	\$ 13,695
Earnings per share (basic)	\$ 0.19	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18
Earnings per share (diluted)	\$ 0.18	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17
Distributable income ¹	\$ 16,302	\$ 14,818	\$ 15,477	\$ 13,508	\$ 13,681	\$ 14,091	\$ 14,080	\$ 13,410
Distributable income per share ¹	\$ 0.20	\$ 0.19	\$ 0.20	\$ 0.18	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.18

¹ Refer to non-IFRS measures section.

² Amounts include allowance for mortgage investments loss.

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

- 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;
- 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;
- In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and allowance for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;
- The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs.

RELATED PARTY TRANSACTIONS

As at December 31, 2018, Due to Manager includes mainly management and servicing fees payable of \$1.5 million (December 31, 2017 - \$1.1 million).

As at December 31, 2018, included in other assets is \$3.1 million (December 31, 2017 – \$2.4 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, 2018, the Company has the following 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, 2017 – \$84.1 million). The Company’s share of the commitment is \$29.1 million (December 31, 2017 – \$29.1 million). During Q2 2018, the mortgage investment was fully repaid (December 31, 2017 – \$15.1 million). For the year ended December 31, 2018, the Company has recognized net interest income of \$460 (2017 – \$922) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$9.5 million (December 31, 2017 – \$15.6 million). The Company’s share of the commitment is \$3.6 million (December 31, 2017 – \$6.0 million), of which \$3.6 million (December 31, 2017 – \$3.6 million) has been funded as at December 31, 2018. For the year ended December 31, 2018, the Company has recognized net interest income of \$344 (2017 – \$341) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$4.3 million (December 31, 2017 – \$4.3 million). The Company’s share of the commitment is \$4.3 million (December 31, 2017 – \$4.3 million), During Q4 2018, the mortgage investment was fully repaid (December 31, 2017 – \$2.0 million). For the year ended December 31, 2018, the Company has recognized net interest income of \$153 (2017 – \$156) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2017 – \$1.9 million). The Company’s share of the commitment is \$1.9 million (December 31, 2017 – \$1.9 million), of which \$1.9 million (December 31, 2017 – \$1.9 million) has been funded as at December 31, 2018. For the year ended December 31, 2018, the Company has recognized net interest income of \$115 (2017 – \$115) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$16.5 million (December 31, 2017 – \$16.5 million). The Company’s share of the commitment is \$2.5 million (December 31, 2017 – \$2.5 million), of which \$2.5 million (December 31, 2017 – \$2.4 million) has been funded as at December 31, 2018. For the year ended December 31, 2018, the Company has recognized net interest income of \$238 (2017 – \$84) from this mortgage investment during the year.

As at December 31, 2018, the Company and Timbercreek Four Quadrant Global Real Estate Partners (“T4Q”) and Timbercreek Real Estate Financing U.S. Holding LP (“TREF”, Timbercreek U.S. Short Term Debt (Founder) L.P. was rolled-over to TREF in September 2018) are related parties as they are managed by wholly owned subsidiary of the Manager, and they have co-invested in 18 (December 31, 2017 – 19) gross mortgage investments totaling \$258.8 million (December 31, 2017 – \$358.0 million). The Company’s share in these gross mortgage investments is \$178.4 million (December 31, 2017 – \$172.2 million). Included in these amounts is two net mortgage investments (December 31, 2017 – one) totaling \$23.0 million (December 31, 2017 – \$5.7 million) loaned to limited partnerships in which T4Q is invested.

As at December 31, 2018, the Company and T4Q invested in two indirect real estate developments through two investees, totaling \$7.5 million (December 31, 2017 – \$2.2 million).

As at December 31, 2018, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$4.6 million or €2.9 million (December 31, 2017 – \$1.7 million or €1.1 million), which is included in loan investments within 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. For the year ended December 31, 2018, Property Management Fees of \$130 was charged by the Manager to the Company (December 31, 2017 – \$52). As at December 31, 2018, \$18 was payable to the Manager (December 31, 2017 – \$20).

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 judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. 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 judgements 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 judgements in the consolidated financial statements. The significant estimates and judgements 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 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 to the consolidated financial statements for the period ended December 31, 2018:

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

Note 5 - Investment properties; and

Note 19 - Fair value measurements.

Syndication liabilities

The Company applies judgement 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.

Classification of mortgage and other investments

Mortgage investments and other loans are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. We exercise judgment in determining both the business model for managing the assets and whether cash flows of the financial asset comprise solely payments of principal and interest.

Measurement of expected credit loss

The determination of allowance for credit losses takes into account different factors and varies by nature of investment. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance of credit risk. Refer to note 3(b) of consolidated financial statements for the period ended December 31, 2018.

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 21 of the consolidated financial statements for the period ended December 31, 2018, 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.

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 subsequently measured at amortized cost and are carried at amortized cost.

Financial instruments

Recognition and initial measurement

All financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement - financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") - debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has no debt investments measured at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Financial assets - Business model assessment: Policy applicable from January 1, 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods. the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the syndicated assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;

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- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Subsequent measurement and gains and losses - financial assets

Financial assets at FVTPL	Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	Measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Financial assets - Policy applicable before January 1, 2018

The Company classified its financial assets into one of the following categories (note 19):

- Loans and Receivables - Measured at amortized cost using the effective interest method; and
- FVTPL - Measured at fair value. Net gains and losses, are recognized in profit or loss.

Classification, subsequent measurement and gains and losses - financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Impairment of financial assets

Policy applicable from January 1, 2018

The Company recognizes loss allowances for expected credit loss ("ECL") on financial assets measured at amortized cost, unfunded loan commitments and financial guarantee contracts. The Company applies a three-stage approach to measure allowance for credit losses. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due interest payment or maturity date, and borrower specific criteria as identified by the Manager. As is typical in shorter duration, structured financing, the Manager does not solely believe there has been a significant deterioration in credit risk or an asset to be credit impaired if mortgage and other investments to go into overhold position past the maturity date for a period greater than 30 days or 90 days, respectively. The Manager actively monitors these mortgage and other investments and applies judgement in determining whether there has been

significant increase in credit risk. The Company considers a financial asset to be credit impaired when the borrower is more than 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest or/and when the Company has commenced enforcement remedies available to it under its contractual agreements.

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

In cases where a borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a loan. Modifications may include payment deferrals, extension of amortization periods, debt consolidation, forbearance and other modifications intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. The Company determines the appropriate remediation strategy based on the individual borrower. If the Company determines that a modification results in expiry of cash flows, the original asset is derecognized while a new asset is recognized based on the new contractual terms. Significant increase in credit risk is assessed relative to the risk of default on the date of modification. If the Company determines that a modification does not result in derecognition, significant increase in credit risk is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having a lifetime ECL, the loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

When determining the expected credit loss provision, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. We consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions. In assessing information about possible future economic conditions, we utilized multiple economic scenarios including our base case, which represents the most probable outcome and is consistent with our view of the portfolio. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. In determining expected credit losses, we have considered key macroeconomic variables that are relevant to each investment type. Key economic variables include unemployment rate, housing price index and interest rates. The estimation of future cash flows also includes assumptions about local real estate market conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. 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 forecast is developed internally by the Manager. We exercise experienced credit judgment to incorporate multiple economic forecasts

which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

Credit-impaired financial assets

Allowances for Stage 3 are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. We review our loans on an ongoing basis to assess whether any loans carried at amortized cost should be classified as credit impaired and whether an allowance or write-off should be recorded.

The review of individually significant problem loans is conducted at least quarterly by the Manager, who assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan. To determine the amount we expect to recover from an individually significant impaired loan, we use the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial asset measured at amortized cost are deducted from the gross carrying amount of the asset.

Write-offs

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy prior to January 1, 2018

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.

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 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 borrowing 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).

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 allowance 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 income/(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 finance 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.

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.

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 does not 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.

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

The Company has adopted IFRS 9 and IFRS 15 effective January 1, 2018 without restatement of comparative periods.

IFRS 15, Revenue from contracts with customers ("IFRS 15")

The Company adopted the standard on January 1, 2018 and applied the requirements of the standards retrospectively. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or are completed on January 2017 do not require restatement.

The implementation of IFRS 15 did not have a significant impact on the Company's revenue streams from its investment properties.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments are measured at fair value through profit or loss. However, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018.

	Original Classification	New Classification under IFRS 9	Original carrying amount under	Reclassification	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and Receivables	Amortized Cost	700	—	700
Other assets	Loans and Receivables	Amortized Cost	8,606	(890)	7,716
Derivative	Held-for-trading	Mandatorily at FVTPL	66	—	66
Mortgage investments, including mortgage syndications	Held to maturity	Amortized Cost ²	1,554,369	(78,123)	1,476,246
Mortgage investments, including mortgage syndications ¹	Held to maturity	FVTPL	—	79,013	79,013
Other investments - collateralized loans	Loans and receivables	Amortized Cost ²	44,883	—	44,883
Other investments - participating loans and marketable securities	FVTPL	FVTPL	4,847	—	4,847

¹\$55,198 of syndication balance is measured at amortized cost

²Mortgage investments and collateralized loans within other investments, that were previously classified as held-to-maturity are now classified at amortized cost. The Company intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Upon adoption of IFRS 9, the Company identified one mortgage investment with a gross carrying value of \$79,013. The Company's portion of this mortgage investment with carrying value of \$23,815 includes a profit participation feature, which does not meet the SPPI criterion. Accordingly, the entire gross carrying value, including the profit participation receivable of \$890, previously recorded in other assets, has been reclassified at FVTPL.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an ECL model. The new impairment model applies for all financial assets measured at amortized cost, contract assets, debt investments at FVOCI and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. Under IFRS 9, credit losses are recognized earlier than under IAS 39 - see note 3(b). For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at January 1, 2018 has not resulted in significant changes to loss allowance previously recognized. This differs from the Company's previous approach where the allowance recorded on performing loans was designed to capture only incurred losses whether or not they have been specifically identified.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application,

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.

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. 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 is not expected to have a significant impact.

OUTSTANDING SHARE DATA

As at March 4, 2019, the Company's authorized capital consists of an unlimited number of common shares, of which 81,857,771 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.

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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 \$500.0 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, 2018, 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.

The following are the contractual maturities of financial liabilities as at December 31, 2018, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 4,221	\$ 4,221	\$ 4,221	\$ —	\$ —
Dividends payable	4,694	4,694	4,694	—	—
Due to Manager	1,493	1,493	1,493	—	—
Mortgage funding holdbacks	657	657	657	—	—
Prepaid mortgage interest	2,425	2,425	2,425	—	—
Credit facility (mortgage investments) ¹	476,166	520,818	21,658	499,160	—
Credit facility (investment properties) ²	32,773	33,804	33,804	—	—
Convertible debentures ³	131,597	144,954	52,135	92,819	—
	\$ 654,026	\$ 713,066	\$ 121,087	\$ 591,979	\$ —
Unadvanced mortgage commitments ⁴	—	184,265	184,265	—	—
Total contractual liabilities	\$ 654,026	\$ 897,331	\$ 305,352	\$ 591,979	\$ —

¹ Credit facility (mortgage investments) includes interest based upon December 2018 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2020.

² Credit facility (investment properties) includes interest based upon December 2018 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on August 10, 2019.

³ The 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, 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 \$58.0 million.

As at December 31, 2018, the Company had a cash position of \$541 (December 31, 2017 – \$700), an unutilized credit facility (mortgage investments) balance of \$21.9 million (December 31, 2017 – \$34.1 million) and an unutilized credit facility (investment properties) balance of \$457 (December 31, 2017 – \$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 within the \$58.0 million out of \$184.3 million in total (December 31, 2017 – \$60.8 million) is 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.

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.

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, 2018, \$717.5 million of net mortgage investments and \$21.8 million of other investments bear interest at variable rates. (December 31, 2017 - \$130.7 million and \$8.1 million, respectively). \$626.0 million of net mortgage investments have a "floor rate" (December 31, 2017 - \$109.3 million). If there were a decrease or increase 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 \$2.5 million or an increase in net income of \$3.7 million, respectively (2017 - \$115 and \$694, respectively). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of \$510.9 million as at December 31, 2018. (December 31, 2017 - \$396.1 million) Based on the outstanding credit facility balance as at December 31, 2018, and assuming it was outstanding for the entire period a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$2.6 million (2017 - \$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.

Currency risk

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

approximately hedge the principal balance 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, 2018, the Company has net mortgage and other investments denominated in foreign currencies of US\$5.0 million in net mortgages, US\$5.1 million and €2.9 million in other investments (December 31, 2017 – US \$15.7 million, US\$5.1 million and €1.1 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at December 31, 2018, the Company has four U.S. dollars currency contracts with an aggregate notional value of US\$10.1 million, at a weighted average forward contract rate of 1.3416 and maturity dates between January and May 2019, and one Euro currency contracts with an aggregate notional value of €2.9 million at a weighted average contract rate of 1.5282, maturing in January 2019. As at December 31, 2018 the Company unwound all outstanding cross-currency swap (December 31, 2017 - nil). As a result, the Company is not exposed to any significant foreign currency risk.

The fair value of the foreign currency forward contract as at December 31, 2018 is a liability of \$328 which is included in accounts payable. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

Credit risk

Credit risk is the risk 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 exposure to credit risk at December 31, 2018 relating to net mortgages and other investments amount to \$1,320.0 million (December 31, 2017 – \$1,150.2 million).

The Company has recourse under these mortgage and the majority of other investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral. Management believes that the potential loss from credit risk with respect to cash that is held in trust at a Schedule I bank by the Company's transfer agent and operating cash held also at a Schedule 1 bank, to be minimal.

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.

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.

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, 2018 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, 2018 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, 2018 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 judgements 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).

Internet

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

Mail

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