

Management's Discussion and Analysis

Timbercreek Financial

For the three months ended March 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 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 May 2, 2018. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekfinancial.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

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 three months ended March 31, 2018. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018 and 2017, and the audited consolidated financial statements for the years ended December 31, 2017 and 2016, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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

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

NON-IFRS MEASURES

The Company prepares and releases unaudited interim condensed 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 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;
- Net investment income – represents interest income, fee income and other income excluding any income, fee income and other income from mortgage syndications;
- Income from operations – represents income before non-operating items such as net operating gain (loss) from foreclosed properties held for sale (“FPHFS”), gain (loss) on disposal of FPHFS, fair value adjustments on FPHFS, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain and financing costs;
- Adjusted total net income and comprehensive income – represents total net income and comprehensive income for the stated period excluding termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain;
- Adjusted earnings per share – represents the total adjusted total net income and comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company’s ability to generate recurring cash flows for dividends by removing the effect of lender fees, amortization, accretion, unrealized fair value adjustments, provisions for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain, and unrealized gain or loss from total net income and comprehensive income;
- Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period;
- Expense ratio – represents total expenses excluding financing costs, net operating (gain) loss from FPHFS, fair value adjustment on FPHFS, provision for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;

- Fixed expense ratio – represents expenses as calculated under expense ratio, less performance fees, for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period; and
- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

During Q1 2018, Timbercreek Financial further increased its capital base to support the expansion of the investment portfolio, including the completion of a bought offering of common shares for gross proceeds, including the underwriters' over allotment option of, \$45.1 million and \$40 million of our credit facility's accordion feature being exercised, bringing the aggregate available amount to \$440 million.

PORTFOLIO ACTIVITY

During Q1 2018, Timbercreek Financial continued to experience robust transaction activity. We funded 10 new mortgage investments totaling \$174.1 million and made additional advances of \$41.2 million. Portfolio turnover was 16.2%, up from 10.9% in Q4 2017. The net value of our commercial mortgage portfolio, excluding syndications, was approximately \$1.1 billion at the end of Q1 2018, similar to the value at the end of Q4 2017. Our draw on the credit facility (excluding the credit facility associated with investment properties) stood at \$363.4 million at the end of Q1 2018 compared to \$365.9 million at the end of Q4 2017. We continue to review a significant pipeline of quality investment opportunities.

During the past year, we have broadened the types of investments in our portfolio to include certain higher-yielding investments such as collateralized loans, debentures, participating mortgages and marketable securities, as well as investment properties in the enhanced return portfolio. Leveraging the full breadth of the Manager's origination capabilities and underwriting standards, these investments generate accretive returns and increase our portfolio diversification. At the end of Q1 2018, the enhanced return portfolio was \$68.7 million, which includes \$55.7 million of other investments and \$13.0 million of net equity in investment properties, and represented approximately 5.4% of the total assets net of syndications. This is a decrease of \$1.8 million, mainly due to two loan maturities and disposition of our marketable securities investment, offset by the funding of one new as well as three existing investments. We continue to review interesting new investment opportunities that would fit in this category.

We believe Timbercreek Financial offers a superior risk profile while still generating an attractive yield for our investors. Our risk management is achieved through a variety of strategies, including a focus on lending against income-producing assets and an emphasis on first mortgages. Our exposure to first mortgages was 92.7% at quarter end, consistent with Q4 2017. Our weighted average loan-to-value ratio was 68%, similar to Q4 2017 and below our internal target of 70%. Our weighted average interest rate on mortgage investments was 6.8% for Q1 2018, slightly down from Q4 2017, a reflection of the impact from an increasingly competitive environment. Given interest rate increases in Canada over the past year, the Company has seen a modest positive trend on rates for new loans, but expects it will take several quarters for these increases to be reflected in the average interest rate of the portfolio. All of the new loans funded in Q1 2018 had floating rates, which reduces margin pressure within our mortgage portfolio in a rising interest rate environment.

Although higher rates can be obtained by investing in single-family housing, condominiums and construction, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings. At quarter end, 86.8% of the mortgage investments were secured by income-producing properties, which underscores our focus on cash-flowing properties as a risk management strategy. Approximately 43% of the portfolio at quarter end was secured by multi-residential real estate (apartment buildings), which is a stable asset class with

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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 portfolio remains heavily weighted towards Canada's largest provinces, with approximately 75.6% of the portfolio invested in Ontario, Quebec and British Columbia the majority of which are in urban markets that generally experience better real estate liquidity in periods of uncertainty and thus offer a better risk profile. The percentage of assets invested in Alberta increased moderately to 13.9% from the prior quarter at 12.1%. As discussed in recent quarters, we are seeing more quality investment opportunities in Alberta, although we continue to exercise caution given the economic conditions in the province.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	March 31, 2018	March 31, 2017	December 31, 2017
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 1,763,243	\$ 1,594,073	\$ 1,554,369
Other investments ¹	\$ 55,694	\$ 25,013	\$ 57,934
Investment properties	\$ 43,865	\$ —	\$ 42,748
Total assets	\$ 1,880,098	\$ 1,635,519	\$ 1,664,759
Credit facility	\$ 392,259	\$ 294,942	\$ 394,046
Convertible debentures	\$ 164,438	\$ 119,164	\$ 163,946
Total liabilities	\$ 1,185,254	\$ 986,248	\$ 1,011,637
CAPITAL STRUCTURE			
Shareholders' equity	\$ 694,844	\$ 649,271	\$ 653,122
Convertible debentures, par ¹	\$ 171,300	\$ 126,300	\$ 171,300
Credit facility limit	\$ 473,277	\$ 350,000	\$ 433,277
Leverage ¹	44.7%	39.4%	46.4%
COMMON SHARE INFORMATION			
Number of common shares outstanding	79,241,349	73,933,188	74,277,356
Closing trading price	\$ 9.09	\$ 9.42	\$ 9.62
Market capitalization	\$ 720,304	\$ 696,451	\$ 714,548

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

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OPERATING RESULTS

	Three months ended		Year ended
	March 31,		December 31,
	2018	2017	2017
Net investment income ¹	\$ 21,847	\$ 20,764	\$ 88,937
Net rental income ¹	\$ 149	\$ —	\$ 193
Income from operations ¹	\$ 18,610	\$ 17,541	\$ 75,374
Total net income and comprehensive income	\$ 11,667	\$ 12,945	\$ 52,204
Earnings per share (basic)	\$ 0.15	\$ 0.18	\$ 0.70
Earnings per share (diluted)	\$ 0.15	\$ 0.17	\$ 0.70
Adjusted total net income and comprehensive income ¹	\$ 11,667	\$ 12,945	\$ 52,204
Adjusted earnings per share (basic) ¹	\$ 0.15	\$ 0.18	\$ 0.70
Adjusted earnings per share (diluted) ¹	\$ 0.15	\$ 0.17	\$ 0.70
Dividends to shareholders	\$ 13,383	\$ 12,636	\$ 50,736
Dividends per common share	\$ 0.174	\$ 0.171	\$ 0.685
Payout ratio on earnings per share ¹	114.7%	97.6%	97.2%
Distributable income ¹	\$ 13,508	\$ 13,410	\$ 55,262
Distributable income per share ¹	\$ 0.18	\$ 0.18	\$ 0.75
Payout ratio on distributable income ¹	99.1%	94.2%	91.8%

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

For the three months ended March 31, 2018 ("Q1 2018") and March 31, 2017 ("Q1 2017")

- The Company funded 10 new net mortgage investments (Q1 2017 – 11) totaling \$174.1 million (Q1 2017 – \$76.9 million), made additional advances on existing mortgage investments totaling \$41.2 million (Q1 2017 – \$21.4 million) and received full repayments on 6 mortgage investments (Q1 2017 – 13) and partial repayments totaling \$182.1 million (Q1 2017 – \$76.2 million). As a result, the net mortgage portfolio as at March 31, 2018 has increased by \$33.8 million to \$1,137.4 million (December 31, 2017 – \$1,103.6 million), or 3.1% from December 31, 2017.
- Other investments within the enhanced return portfolio was \$55.7 million, including an allowance for credit loss of \$228 (December 31, 2017 - \$57.9 million and nil, respectively). Net decrease of \$2.2 million in the quarter was mainly due to \$3.1 million in the disposition of marketable securities portfolio and \$12.4 million in loan repayments, offset by \$13.2 million in loan advances and funding of \$880 in a participating loan.
- Net investment income earned was \$21.8 million (Q1 2017 - \$20.8 million), an increase of \$1.0 million, or 5.2% from Q1 2017, mainly due to an increase in average net mortgage balance of \$1,125.4 million compared to \$1,015.7 million during Q1 2017, offset by a decrease 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 first quarter was 7.0% compared to 7.1% Q4 2017 (Q1 2017 - 7.4%), reflecting the repositioning of the portfolio into lower risk and more liquid mortgages.
- Non-refundable cash lender fees received was \$2.8 million (Q1 2017 – \$1.4 million) or a weighted average lender fees on mortgage investments of 1.2% (Q1 2017 – 1.1%).
- The Company generated income from operations of \$18.6 million (Q1 2017 – \$17.5 million), an increase of \$1.1 million or 6.1% from Q1 2017.
- The Company generated net income and comprehensive income of \$11.7 million (Q1 2017 – \$12.9 million) or earnings per share \$0.15, basic and diluted (Q1 2017 – \$0.18, basic and \$0.17 diluted). The Company declared

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\$13.4 million in dividends (Q1 2017 – \$12.6 million) to common shareholders, a payout ratio of 114.7% (Q1 2017 – 97.6%) on an earnings per share basis.

- The Company generated distributable income of \$13.5 million (Q1 2017 – \$13.4 million) or distributable income per share of \$0.18 (Q1 2017 – \$0.18), a payout ratio of 99.1% (Q1 2017 – 94.2%) on a distributable income basis.
- On February 13, 2018, the Company completed the exercise of a portion of the accordion feature, which increased the commitments of the lenders by \$40,000, bringing the credit limit to \$440,000.
- 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 \$42,383.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

	Three months ended		Year ended
	March 31,		December 31,
	2018	2017	2017
Net income and comprehensive income	\$ 11,667	\$ 12,945	\$ 52,204
Less: amortization of lender fees	(1,622)	(1,734)	(7,858)
Add: lender fees received	2,756	1,359	6,802
Add: amortization of financing costs, credit facility	282	277	1,266
Add: amortization of financing costs, debentures	405	278	1,438
Add: accretion expense, debentures	87	110	314
Add: unrealized fair value (gain) loss on FPHFS ¹	—	—	193
Add: net operating loss (gain) on FPHFS	2	(64)	(69)
Add: net realized and unrealized foreign exchange (gain) loss	—	37	129
Add: unrealized (gain) loss on equity investments	(69)	—	43
Add: provision for mortgage investments loss	—	200	800
Distributable income ²	13,508	13,408	55,262
Less: dividends on common shares	(13,383)	(12,636)	(50,736)
Under distribution	\$ 125	\$ 772	\$ 4,526
Distributable income per share	\$ 0.18	\$ 0.18	\$ 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, where applicable.

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

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STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

	Three months ended		% Change
	2018	March 31, 2017	
Net investment income	\$ 21,847	\$ 20,764	5.2 %
Net rental income	149	—	100.0 %
Expenses ²	(3,386)	(3,223)	(5.1)%
Income from operations	18,610	17,541	6.1 %
Net operating (loss) gain on FPHFS	(2)	64	(103.1)%
Financing costs:			
Interest on credit facility	(4,061)	(2,737)	(48.4)%
Interest on convertible debentures	(2,880)	(1,923)	(49.8)%
Net income and comprehensive income (basic)	\$ 11,667	\$ 12,945	(9.9)%
Net income and comprehensive income (diluted)	\$ 11,667	\$ 13,695	(14.8)%
Earnings per share (basic)	\$ 0.15	\$ 0.18	
Earnings per share (diluted)	\$ 0.15	\$ 0.17	
Adjusted earnings per share (basic and diluted) ¹	\$ 0.15	\$ 0.18	

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

² Amounts include provision for mortgage investments loss.

Net investment income²

For Q1 2018, the Company earned net investment income of \$21.8 million (Q1 2017 – \$20.8 million). Net investment income includes the following:

a. Interest income

During Q1 2018, the Company earned \$20.2 million (Q1 2017 – \$19.0 million) of interest income on net mortgage investments and collateralized loans in the enhanced return portfolio. While the weighted average interest rate on net mortgage investments during Q1 2018 decreased to 6.8% compared to 7.3% in Q1 2017, our average yield ended Q1 2018 at 7.0%.

b. Lender fee income

During Q1 2018, the Company received non-refundable cash lender fees of \$2.8 million (Q1 2017 – \$1.4 million), or a weighted average lender fee of 1.2%, respectively (Q1 2017 – 1.1%). Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method. For Q1 2018, lender fees of \$1.6 million (Q1 2017 – \$1.7 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 Q1 2018, the Company earned other income of \$39 (Q1 2017 - \$20).

Net rental income from investment properties

The net rental income from investment properties for Q1 2018 was \$149 (Q1 2017 – nil, purchased in August 2017).

Expenses

For Q1 2018, the expense ratio was 1.1% (Q1 2017 – 1.1%)

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

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.

For Q1 2018, the Company incurred management fees of \$2.9 million (Q1 2017 – \$2.5 million). The increase is directly related to the increase in gross assets averaging \$1,125.4 million in Q1 2018, compared to \$1,015.7 million in Q1 2017.

Servicing fees

As part of the new management agreement, the Manager is entitled to a servicing fee equal to 0.10% per annum, plus applicable taxes, of the amount of any senior tranche of a mortgage 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 Q1 2018, the Company incurred \$138 (Q1 2017 – \$157) in servicing fees.

General and administrative

For Q1 2018, the Company incurred general and administrative expenses of \$349 (Q1 2017 – \$369). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage investments portfolio.

Net Operating Income from Foreclosed Properties Held for Sale (FPHFS)

The Company consolidates the operating activities of the FPHFS. The net operating (loss) income from FPHFS for Q1 2018 was \$(2) (Q1 2017 – \$64).

Fair value loss on foreclosed properties held for sale

During Q1 2018, the Company did not record any fair market value adjustment of its FPHFS in Saskatchewan (Q1 2017 – nil).

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. The increase over the comparable 2017 period is directly related to the increase in credit facility utilization and prime rate during 2018. The average credit utilization in Q1 2018 was \$360.0 million compared to \$299.9 million in Q1 2017. As at March 31, 2018, the Company had a credit facility balance of \$363.4 million (December 31, 2017 - \$365.9 million).

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the three months ended March 31, 2018, included in financing costs is interest on the credit facility of \$3.5 million (Q1 2017 – \$2.5 million) and financing costs amortization of \$267 (Q1 2017 – \$279).

Interest rates on the credit facility are the lower of prime rate of interest plus 1.25% per annum (Q1 2017 - 1.25%) or bankers' acceptances with a stamping fee of 2.25% (Q1 2017 - 2.25%).

Interest on credit facility – investment properties

As a co-owner of the Saskatchewan Portfolio, which comprises of 14 investment properties totaling 1,079 units that are located in Saskatoon and Regina, Saskatchewan, 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% LIBOR plus 2.50%, or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$214.4 million. The Company's share of the carrying value is \$43.9 million. As at March 31, 2018, the Company had a credit facility balance of \$30.8 million (December 31, 2017 - \$30.2 million).

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the three months ended March 31, 2018, included in financing costs is interest on the credit facility of \$296 (Q1 2017 - nil) and financing costs amortization of \$15 (Q1 2017 - nil).

Interest on convertible debentures

The Company has \$34.5 million of 6.35% convertible unsecured subordinated debentures, \$45.8 million of 5.40% convertible unsecured subordinated debentures, \$46.0 million of 5.45% convertible unsecured subordinated debentures and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at March 31, 2018. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method.

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

	Three months ended	
	March 31,	
	2018	2017
Interest on the convertible debentures	\$ 2,388	\$ 1,535
Amortization of issue costs	405	278
Accretion of the convertible debentures	87	110
	\$ 2,880	\$ 1,923

Earnings per share

For Q1 2018, basic and diluted earnings per share were \$0.15 (Q1 2017 – \$0.18 basic and 0.17 diluted).

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

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STATEMENTS OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	March 31, 2018	December 31, 2017
Mortgage investments, including mortgage syndications	\$ 1,763,243	\$ 1,554,369
Mortgage syndication liabilities	(613,770)	(440,648)
	1,149,473	1,113,721
Interest receivable	(19,513)	(16,742)
Unamortized lender fees	6,591	5,584
Allowance for mortgage investments loss	853	1,081
Net mortgage investments	\$ 1,137,404	\$ 1,103,644

	Three months ended		Year ended
	March 31,		December 31,
	2018	2017	2017
Net mortgage investments statistics and ratios¹			
Total number of net mortgage investments	118	120	114
Average net mortgage investment	\$ 9,639	\$ 8,518	\$ 9,686
Average net mortgage investment portfolio	\$ 1,125,405	\$ 1,015,729	\$ 1,147,004
Weighted average interest rate for the period	6.8%	7.3%	7.0%
Weighted average lender fees	1.2%	1.1%	1.0%
Turnover ratio	16.2%	7.3%	40.3%
Weighted average term (years)	2.8	2.4	2.9
Remaining term to maturity (years)	1.0	1.3	1.1
Net mortgage investments secured by cash-flowing properties	86.8%	88.6%	86.7%
Weighted average loan-to-value	67.9%	67.2%	66.0%

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

Portfolio allocation

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

a. Security position

	March 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
First mortgages	106	92.7%	102	93.0%
Non-first mortgages	12	7.3%	12	7.0%
	118	100.0%	114	100.0%

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b. Region

	March 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Ontario	58	49.7%	54	55.0%
Quebec	18	10.3%	18	13.5%
British Columbia	18	15.6%	17	12.2%
Alberta	9	13.9%	9	12.1%
Saskatchewan	9	6.5%	9	3.6%
Nova Scotia	1	0.7%	2	1.6%
Manitoba	2	1.6%	2	0.2%
New Brunswick	1	0.8%	—	0.0%
Other	2	0.9%	3	1.8%
	118	100.0%	114	100.0%

c. Maturity

Maturing	March 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
2018	53	44.8%	58	50.0%
2019	37	29.0%	35	29.0%
2020	22	19.3%	17	18.0%
2021	5	6.8%	3	2.9%
2022 and thereafter	1	0.1%	1	0.1%
	118	100.0%	114	100.0%

d. Asset type

	March 31, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Multi-residential	65	42.9%	62	50.1%
Retail	16	16.7%	15	14.1%
Office	7	7.1%	7	7.1%
Hotels	4	8.0%	4	8.2%
Unimproved land	9	8.4%	10	7.0%
Retirement	5	9.0%	6	9.3%
Other-residential	1	1.4%	1	1.5%
Industrial	8	5.9%	6	2.1%
Self-storage	2	0.5%	2	0.5%
Single-family residential	1	0.1%	1	0.1%
	118	100.0%	114	100.0%

Enhanced return portfolio

Enhanced return portfolio was \$68.7 million, which include \$55.7 million (December 31, 2017 – \$57.9 million) of other investments and \$13.0 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 March 31, 2018, the Company has \$44.9 million (December 31, 2017 – \$44.9 million) of collateralized loan investments, \$6.0 million (December 31, 2017 – \$5.9 million) of financing lease receivable, \$2.2 million (December 31, 2017 – \$2.2 million) of indirect development property,

and \$2.6 million of a participating loan (December 31, 2017 – \$1.7 million). During Q1 2018, the Company disposed all of its investment in marketable securities (December 31, 2017 – \$3.1 million).

During Q1 2018, other investments generated net interest income of \$1.1 million (Q1 2017 – \$568) with a weighted average interest rate of 12.4% (Q1 2017 - 10.3%). During Q1 2018, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities of \$140 (Q1 2017 – \$32). During Q1 2018, the Company received total lender fees on other investments, of \$267 (Q1 2017 – nil), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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 March 31, 2018, the Company's share of the investment properties has an aggregate fair value of \$43.9 million (December 31, 2017 – \$42.7 million) and are pledged as security for the credit facility of the co-ownership. Refer to notes 5(b) of the Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2018 and 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 \$613.8 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.

Foreclosed properties held for sale

The fair value of the remaining FPHFS as at March 31, 2018 is \$336 (December 31, 2017 – \$336) and the Company has engaged a third-party manager to operate the properties being held for sale.

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 and realized a gain of \$146. Previously in 2017, the Company disposed of a foreclosed property with a book value of \$5.0 million resulting in a net loss of \$143 and issued the purchaser a \$4.4 million mortgage due in 2020.

During Q1 2018, the Company did not record any fair market value adjustment on any of its FPHFS (Q1 2017 – nil).

Allowance for Credit Losses (“ACL”)

The allowance for credit losses recorded in the Interim Condensed Consolidated Statement of Financial Position 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 \$1,081 at March 31, 2018, of which \$853 was recorded in mortgage investments and \$228 recorded in other investments in our Interim Condensed Consolidated Statement of Financial Position.

Allowance on Performing Loans

We maintain an allowance in order to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Our approach to establishing and maintaining the allowance for performing loans is based on the requirements of IFRS.

Under the IFRS 9 expected credit loss ECL methodology, an allowance is recorded for expected credit losses on financial assets regardless of whether there has been an actual loss event. We recognize a loss allowance at an amount equal to 12 month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). We will record expected credit losses over the remaining life of performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2).

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 and is specifically identified by the Manager's watch list.

We consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. 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. Our ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

Allowance on Impaired Loans

Allowances for impaired loans (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 should be classified as 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.

Provision for credit losses :

Multi-residential	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	864,080	20,329	—	884,409
Mortgage syndication liabilities, including interest receivable	319,023	—	—	319,023
Net	545,057	20,329	—	565,386
Allowance for loan losses	603	26	—	629
Mortgage investments, net of allowance and mortgage syndications	544,454	20,303	—	564,757

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Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	755,230	52,962	—	808,192
Mortgage syndication liabilities, including interest receivable	240,696	—	—	240,696
Net	514,534	52,962	—	567,496
Allowance for loan losses	15	209	—	224
Mortgage investments, net of allowance and mortgage syndications	514,519	52,753	—	567,272

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	45,441	—	—	45,441
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	45,441	—	—	45,441
Allowance for loan losses	228	—	—	228
Other loan Investments, net of allowance and mortgage syndications	45,213	—	—	45,213

During the three months ended March 31, 2018, the provision for credit loss was increased by \$62 from new investments which was offset by a decrease of \$62 from investment repayments. There were no transfers between Stage 1, Stage 2 and Stage 3 during the three months ended March 31, 2018.

Net working capital

Net working capital increased by \$8.6 million to \$23.0 million at March 31, 2018 from \$14.3 million at December 31, 2017. The increase is mainly due to the higher amount of accrued interest receivable as a result of an increase in the mortgage and other investments.

Credit facility - mortgage investments

The Company entered into a credit facility agreement with a credit limit of \$350.0 million and a maturity date of May 2018. The credit facility is secured by a general security agreement over the Company's assets and its subsidiaries. On June 20, 2017, the Company increased the credit limit by \$50.0 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 commitments of the lenders by \$40.0 million, bringing the credit limit to \$440.0 million.

The rates of interest and fees of the Amended Credit Agreement and previous credit agreements remain unchanged which are at either the prime rate of interest plus 1.25% per annum (December 31, 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 March 31, 2018, the Company's qualified credit facility limit is \$389.2 million and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at March 31, 2018, the Company has incurred financing costs of \$4.0 million relating to the credit facility, which includes upfront fees, legal and other costs. During the three months ended March 31, 2018, the Company incurred additional financing costs of \$238, the majority of which relates to the exercise of the accordion feature. The financing

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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 Q1 2018, included in financing costs is interest on the credit facility of \$3.5 million (Q1 2017 – \$2.5 million) and financing costs amortization of \$267 (Q1 2017 – \$277).

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 \$162,644. The gross initial advance on the credit facility was \$144,644. The Company's share of the initial advance was \$29,594 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%, LIBOR plus 2.50% or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$214,392. The Company's share of the carrying value is \$43,865. 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 Q1 2018, the co-owners elected to convert bankers' acceptances to LIBOR loans. Refer to note 17 for risk management details. As at March 31, 2018, \$150,792 was outstanding on the credit facility. The Company's share of the outstanding amount is \$30,852.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the three months ended March 31, 2018, included in financing costs is interest on the credit facility of \$296 (Q1 2017 - nil) and financing costs amortization of \$15 (Q1 2017 - nil).

Convertible debentures

The debentures are comprised of as follows:

	March 31, 2018	December 31, 2017
Issued	\$ 171,300	\$ 171,300
Issue costs, net of amortization	(5,669)	(6,074)
Equity component	(2,043)	(2,043)
Issue costs attributed to equity component	105	105
Cumulative accretion	745	658
Debentures, end of period	\$ 164,438	\$ 163,946

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.

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 \$42,383

b. Dividends

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. For the three months ended March 31, 2018, TF declared dividends of \$13.4 million or \$0.173 per TF common share (Q1 2017 – \$12.6 million, \$0.171 per share). As at March 31, 2018, \$4.6 million in aggregate dividends (December 31, 2017 – \$4.3 million) was payable to the holders of common shares of TF by the Company. Subsequent to March 31, 2018, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on May 15, 2018 to the common shareholders of record on April 30, 2018.

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 issued from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. During Q1 2018, no common shares were purchased on the open market (Q1 2017 – 37,603), and 116,693 (Q1 2017 – 112,292) common shares were issued from treasury.

d. Non-executive director deferred share unit plan

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

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

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

For the three months ended March 31, 2018, 4,862 and 32,905 (Q1 2017 - 5,353 and 11,459) units were issued and outstanding, respectively. No DSUs were exercised or canceled resulting in a DSU expense of \$41 based on a Fair Market Value of \$8.43 per common share (Q1 2017 - \$50, based on Fair Market Value of \$9.32 per common share). As at March 31, 2018, \$41 in quarterly compensation was granted in DSUs, which will be issued subsequent to March 31, 2018 at the Fair Market Value.

STATEMENT OF CASH FLOWS**Cash from operating activities**

Cash from operating activities for Q1 2018 was \$20.9 million (Q1 2017 – \$10.9 million).

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Cash from financing activities

Cash used in financing activities for Q1 2018 and cash from financing activities for Q1 2017 consisted of the Company's net repayment on the operating credit facility of \$2.5 million (Q1 2017 – \$4.3 million of net advances) and advances on investment properties credit facility of \$677 (Q1 2017 – nil). The Company received net proceeds of \$42.4 million from the issuance of common shares. The Company paid interest on the debentures and credit facilities of \$6.6 million (Q1 2017 – \$1.2 million), common share dividends of \$12.0 million (Q1 2017 – \$11.6 million), there was no repurchased common shares (Q1 2017 – \$331). The net cash provided by financing activities for Q1 2018 was \$21.9 million (Q1 2017 – \$26.2 million).

Cash used in investing activities

Net cash used in investing activities in Q1 2018 was \$32.9 million (Q1 2017 – \$37.0 million) and consisted of the funding of net mortgage investments of \$214.3 million (Q1 2017 – \$74.8 million), offset by repayments of net mortgage investments of \$181.0 million (Q1 2017 – \$37.8 million), funding of other investments of \$14.0 million (Q1 2017 – nil), offset by repayments of other investments of \$15.5 million (Q1 2017 – nil), and net addition to investment properties of \$1.1 million (Q1 2017 – nil).

QUARTERLY FINANCIAL INFORMATION

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

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net investment income ¹	\$ 21,847	\$ 23,178	\$ 23,547	\$ 21,448	\$ 20,764	\$ 20,583	\$ 19,119	\$ 10,922
Net rental income	149	99	94	—	—	—	—	—
Expenses ²	(3,386)	(3,633)	(3,809)	(3,091)	(3,223)	(2,643)	(2,695)	(2,418)
Income from operations ¹	18,610	19,644	19,832	18,357	17,541	17,940	16,424	8,504
Net operating (loss) gain from FPHFS	(2)	(40)	27	19	64	3	53	(39)
Fair value (loss) gain of FPHFS	—	146	(193)	(143)	—	(500)	(575)	—
Non-recurring transaction costs relating to the Amalgamation	—	—	—	—	—	(84)	—	6,143
Financing costs:								
Interest on credit facility	(4,061)	(3,987)	(3,519)	(2,831)	(2,737)	(2,833)	(2,321)	(600)
Interest on convertible debentures	(2,880)	(2,887)	(2,899)	(2,267)	(1,923)	(1,448)	(1,178)	(666)
Total financing costs	(6,941)	(6,874)	(6,418)	(5,098)	(4,660)	(4,281)	(3,499)	(1,266)
Total net income and comprehensive income (basic)	\$ 11,667	\$ 12,876	\$ 13,248	\$ 13,135	\$ 12,945	\$ 13,078	\$ 12,403	\$ 13,342
Total net income and comprehensive income (diluted)	\$ 12,359	\$ 15,080	\$ 15,468	\$ 14,589	\$ 13,695	\$ 14,526	\$ 13,581	\$ 14,009
Earnings per share (basic)	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.33
Earnings per share (diluted)	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.32
Adjusted earnings per share (basic and diluted) ¹	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.33
Distributable income ¹	\$ 13,508	\$ 13,681	\$ 14,091	\$ 14,080	\$ 13,410	\$ 13,905	\$ 13,878	\$ 7,607
Distributable income per share ¹	\$ 0.18	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.19

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

² Amounts include provision for mortgage investments loss.

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

- In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the

portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;

- ii. Within expenses, the Company accrues the performance fee payable to the Manager. Given that the performance fee is adjusted for cash items, the volatility of cash receipts in the year (mainly relating to lender fees) will typically have an impact on the amount expensed in any quarter;
- iii. In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and provision for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;
- iv. The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs; and
- v. Q2 2016 and Q4 2016 includes one-time amounts relating to the Amalgamation which includes termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain.

RELATED PARTY TRANSACTIONS

As at March 31, 2018, Due to Manager includes mainly management and servicing fees payable of \$1.2 million (December 31, 2017 - \$1.1 million).

As at March 31, 2018, included in other assets is \$2.4 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 March 31, 2018, the Company has five mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage investment with a total gross commitment of \$84.1 million (December 31, 2017 – \$84.1 million). The Company's share of the commitment is \$29.1 million (December 31, 2017 – \$29.1 million), of which \$15.4 million (December 31, 2017 – \$15.1 million) has been funded as at March 31, 2018. For the three months ended March 31, 2018, the Company has recognized net interest income of \$359 (Q1 2017 – \$168) from this mortgage investment during the period.
- 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 March 31, 2018. For the three months ended March 31, 2018, the Company has recognized net interest income of \$86 (Q1 2017 – \$85) from this mortgage investment during the period.
- 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), of which \$2.0 million (December 31, 2017 – \$2.0 million) has been funded as at March 31, 2018. For the three months ended March 31, 2018, the Company has recognized net interest income of \$40 (Q1 2017 – \$41) from this mortgage investment during the period.
- 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 March 31, 2018. For the three months ended March 31, 2018, the Company has recognized net interest income of \$29 (Q1 2017 – \$29) from this mortgage investment during the period.

- 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 \$2.4 million (December 31, 2017 – \$2.4 million) has been funded as at March 31, 2018. For the three months ended March 31, 2018, the Company has recognized net interest income of \$61 (Q1 2017 – nil) from this mortgage investment during the period.

As at March 31, 2018, the Company and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Income Fund and Timbercreek U.S. Short Term Debt (Founder) L.P. are related parties as they are managed by the Manager, and they have co-invested in 20 (December 31, 2017 – 19) gross mortgage investments totaling \$518.0 million (December 31, 2017 – \$358.0 million). The Company's share in these gross mortgage investments is \$209.3 million (December 31, 2017 – \$172.2 million). Included in these amounts is two net mortgage investments (December 31, 2017 – one) totaling \$19.4 million (December 31, 2017 – \$5.7 million) loaned to limited partnerships in which T4Q is invested.

As at March 31, 2018, the Company and T4Q invested in an indirect real estate development through a joint venture totaling \$2.2 million (December 31, 2017 – \$2.2 million).

As at March 31, 2018, the Company invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$2.6 million or €1.6 million (December 31, 2017 – \$1.7 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 three months ended March 31, 2018, Property Management Fees of \$28 was charged by the Manager to the Company (December 31, 2017 – nil). As at March 31, 2018, \$11 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 unaudited interim condensed 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. 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 unaudited interim condensed consolidated financial statements. In addition to those estimates, assumptions and judgments noted in consolidated financial statements for the year ended December 31, 2017, the Company has identified a new judgment area as a result of the adoption of IFRS 9 as follows:

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 asset comprise solely payments of principal and interest.

Measurement of expected credit loss

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

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 and meet certain criteria which are specific to individual borrower and/or industry based on judgement.

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.

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 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.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same, except for as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS.

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. The Company adopted IFRS 9 beginning January 1, 2018 using transitional provisions allowing the Company to not restate comparative periods. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

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; fair value through other comprehensive income ("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.

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.

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For the three months ended March 31, 2018

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

	Original Classification	New Classification under IFRS 9	Original carrying amount under IAS 39	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	1,554,369	(78,123)	1,476,246
Mortgage investments, including mortgage syndications ¹	Held to maturity	FVTPL	—	79,013	79,013
Other investments	Loans and receivables	Amortized Cost	50,846	—	50,846
Other investments	FVTPL	FVTPL	4,874	—	4,874

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

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

IFRS 9 introduces a new single expected credit loss ("ECL") impairment model for all financial assets 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. 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.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires lifetime losses for all credit impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions which is available without undue cost or effort, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes.

The determination of a significant increase in credit risk takes into account different factors and will vary 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 and meet certain criteria which are specific to individual borrower and/or industry based on judgement. As is typical in shorter duration, structured financing, the Manager does not solely believe there has been a significant deterioration in credit risk as it is not uncommon for mortgage and other investments to go into overhold position for a period greater than 30 days. 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 in default 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.

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.

OUTSTANDING SHARE DATA

As at May 2, 2018, the Company's authorized capital consists of an unlimited number of common shares, of which 79,285,280 are issued and outstanding.

CAPITAL STRUCTURE AND LIQUIDITY

Capital structure

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

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

Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has a borrowing ability of \$400 million through its credit facility – mortgage investments and \$33.3 million through its credit facility – investment properties and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at March 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 March 31, 2018, including expected interest payments:

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For the three months ended March 31, 2018

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

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 6,600	\$ 6,600	\$ 6,600	\$ —	\$ —
Dividends payable	4,556	4,556	4,556	—	—
Due to Manager	1,150	1,150	1,150	—	—
Mortgage funding holdbacks	702	702	702	—	—
Prepaid mortgage interest	1,779	1,779	1,779	—	—
Credit facility – mortgage investments ¹	361,491	387,728	14,137	373,591	—
Credit facility – investment properties ²	30,768	32,480	1,196	31,284	—
Convertible debentures ³	164,438	185,160	42,048	97,516	45,596
	\$ 571,484	\$ 620,155	\$ 72,168	\$ 502,391	\$ 45,596
Unadvanced mortgage commitments ⁴	—	201,136	201,136	—	—
Total contractual liabilities	\$ 571,484	\$ 821,291	\$ 273,304	\$ 502,391	\$ 45,596

¹ Credit facility - mortgage investments includes interest based upon the current Q1 2018 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2019.

² Credit facility – investment properties includes interest based upon the current Q1 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 2014 debentures are deemed to be current as they are redeemable on and after March 31, 2017, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, 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 \$83.2 million.

As at March 31, 2018, the Company had a cash position of \$10.5 million (December 31, 2017 – \$700) and an unutilized credit facility – mortgage investments balance of \$76.6 million (December 31, 2017 – \$34.1 million) and credit facility – investment properties balance of \$2.4 million (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 unadvanced mortgage commitments is \$83.2 million out of \$201.1 million in total (December 31, 2017 – \$60.8 million) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

FINANCIAL INSTRUMENTS

Financial assets

The Company's 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.

a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of March 31, 2018, \$324.6 million of net mortgage investments and \$21.1 million of other investments bear interest at variable rates. \$302.8 million and \$18.7 million of net mortgage investments and other investments have a "floor or ceiling rate", respectively. 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 \$121 or an increase in net income of \$1.6 million, respectively. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of \$394.3 million as at March 31, 2018. Based on the outstanding credit facility balance as at March 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 \$2.0 million annually.

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

b. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument 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 economically hedge the variability of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward contracts, the Company buys or sells a currency against another currency at a set price on a future date.

As at March 31, 2018, the Company has net mortgage, credit facility - investment properties and other investments denominated in foreign currencies of US\$13.2 million, US\$22,868 and €1.6 million (December 31, 2017 – US\$20.7 million, nil and €1,144). The Company has entered into a series of foreign currency contracts to reduce the its exposure to foreign currency risk. As at March 31, 2018, the Company has eight U.S. dollars currency contracts with an aggregate notional value of US\$13.2 million, at a weighted average forward contract rate of 1.28 and maturity dates between April 2018 and May 2018, and four Euro currency contracts with an aggregate notional value of €1.6 million at an average contract rate of 1.53. In addition, the Company has entered into a cross-currency swap on its credit facility - investment properties, with notional value of US\$22,868, resetting on a monthly basis. 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 March 31, 2018 is a liability of \$822 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.

c. 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 maximum exposure to credit risk at March 31, 2018 is the carrying values of its net mortgage and other investments, in addition to interest receivable recorded, amounting to \$1,185.9 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.

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.

d. 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.

ADDITIONAL INFORMATION

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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

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