

NOTE TO READER:

Timbercreek Financial (“**Timbercreek Financial**”) filed its interim MD&A for the financial period ended September 30, 2018 (the “**Interim MD&A**”) on November 13, 2018. Subsequent to the filing and release of the Interim MD&A, Timbercreek Financial noted two inadvertent errors in respect of: (i) the weighted average interest rate earned by the Company on net mortgage investments (this was incorrectly stated as 7.5% for the three month period, and 7.2% for the nine month period; the correct figures are 7.3% and 7.1%, respectively); and (ii) the average net mortgage investment portfolio for the three month period (this was incorrectly stated as \$1,269.3 million and the correct figure should be \$1,121.8 million). Corrections have been made to the following sections of the Interim MD&A: page 6 under “Operating Results”, page 10 under “Net Investment Income” and on page 13 in the table relating to “Net mortgage investments statistics and ratios”.

A corrected version of the Interim MD&A is attached hereto.

Management's Discussion and Analysis

Timbercreek Financial

For the three months and nine months ended September 30, 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 November 12, 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 and nine months ended September 30, 2018. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months and nine months ended September 30, 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 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;
- 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 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

To enable the Company to capitalize on the strong demand for our customized financing solutions, we continue to expand and diversify our sources of capital. Subsequent to quarter end, the Company completed a private placement offering, raising aggregate gross proceeds of approximately \$14.4 million through the issuance of 1,561,331 common shares at a price of \$9.22 per share.

PORTFOLIO ACTIVITY

During Q3 2018, Timbercreek Financial funded 15 new mortgage investments totaling \$154.6 million and made additional advances of \$28.0 million. Portfolio turnover was 12.1%, compared with 18.6% in Q2 2018. The net value of our commercial mortgage portfolio, excluding syndications, was approximately \$1.1 billion at the end of Q3 2018, similar to the value at the end of Q2 2018. Our draw on the credit facility (excluding the credit facility associated with investment properties) stood at \$413.4 million at the end of Q3 2018 compared to \$366.7 million at the end of Q2 2018. 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 Q3 2018, the enhanced return portfolio was \$100.4 million, which included \$87.2 million of other investments and \$13.2 million of net equity in investment properties, and represented approximately 7.8% of the total assets net of syndications. This is an increase of \$3.8 million over Q2 2018, mainly due to 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 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 91.5% of the net mortgage portfolio at quarter end, consistent with Q2 2018. Our weighted average loan-to-value ratio was 67%, similar to Q2 2018 and below our internal target of 70%. Our weighted average interest rate on all loans was 7.5% in Q3 2018, up from 7.3% in Q2 2018. Given interest rate increases in Canada over the past year, the Company has worked to raise rates for new loans, and this is reflected in the average interest rate of the portfolio. The weighted average interest rate on all loans on September 30, 2018 was 7.6%, up from 7.4% on June 30, 2018. In recent quarters, we have increased the use of floating rate loans, which reduce margin pressure within our mortgage portfolio in a rising interest rate environment. As at September 30, 2018, 43.4% of the total loan portfolio was invested in loans with floating rates.

TIMBERCREEK FINANCIAL

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

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 quarter end, 84.5% of the mortgage investments were secured by income-producing properties, which underscores our focus on cash-flowing properties as a risk management strategy. Approximately 38.7% of the portfolio at quarter end was secured by multi-residential 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 76.7% of the mortgage portfolio invested in Ontario, Quebec and British Columbia, 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 21.9% 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 is finding a number of attractive opportunities in Alberta, as that market has stabilized and competitors have constraints on new investments in the province given the deployment of their balance sheets at prior valuation levels.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	September 30, 2018	September 30, 2017	December 31, 2017
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 1,728,850	\$ 1,582,830	\$ 1,554,369
Other investments ¹	\$ 87,221	\$ 50,498	\$ 57,934
Investment properties	\$ 45,678	\$ 41,297	\$ 42,748
Total assets	\$ 1,870,012	\$ 1,689,298	\$ 1,664,759
Credit facility	\$ 444,438	\$ 369,120	\$ 394,046
Convertible debentures	\$ 131,236	\$ 163,345	\$ 163,946
Total liabilities	\$ 1,170,591	\$ 1,037,304	\$ 1,011,637
CAPITAL STRUCTURE			
Shareholders' equity	\$ 699,421	\$ 651,994	\$ 653,122
Convertible debentures, par ¹	\$ 136,800	\$ 171,300	\$ 171,300
Credit facility limit	\$ 473,277	\$ 433,277	\$ 433,277
Leverage ¹	45.3%	45.2%	46.4%
COMMON SHARE INFORMATION			
Number of common shares outstanding	79,908,838	74,167,575	74,277,356
Closing trading price	\$ 9.35	\$ 9.35	\$ 9.62
Market capitalization	\$ 747,148	\$ 693,467	\$ 714,548

¹ Refer to non-IFRS measures section.

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

OPERATING RESULTS

	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
Net investment income ¹	\$ 24,465	\$ 23,547	\$ 69,790	\$ 65,762	\$ 88,937
Net rental income ¹	\$ 135	\$ 94	\$ 463	\$ 94	\$ 193
Income from operations ¹	\$ 20,826	\$ 19,832	\$ 59,342	\$ 55,733	\$ 75,374
Total net income and comprehensive income	\$ 13,708	\$ 13,248	\$ 37,803	\$ 39,329	\$ 52,204
Earnings per share (basic)	\$ 0.17	\$ 0.18	\$ 0.48	\$ 0.53	\$ 0.70
Earnings per share (diluted)	\$ 0.17	\$ 0.18	\$ 0.48	\$ 0.53	\$ 0.70
Adjusted total net income and comprehensive income ¹	\$ 13,708	\$ 13,248	\$ 37,803	\$ 39,329	\$ 52,204
Adjusted earnings per share (basic) ¹	\$ 0.17	\$ 0.18	\$ 0.48	\$ 0.53	\$ 0.70
Adjusted earnings per share (diluted) ¹	\$ 0.17	\$ 0.18	\$ 0.48	\$ 0.53	\$ 0.70
Dividends to shareholders	\$ 13,746	\$ 12,677	\$ 40,814	\$ 37,967	\$ 50,736
Dividends per common share	\$ 0.173	\$ 0.171	\$ 0.518	\$ 0.513	\$ 0.685
Payout ratio on earnings per share ¹	100.3%	95.7%	108.0%	96.5%	97.2%
Distributable income ¹	\$ 14,818	\$ 14,091	\$ 43,803	\$ 41,585	\$ 55,262
Distributable income per share ¹	\$ 0.19	\$ 0.19	\$ 0.56	\$ 0.56	\$ 0.75
Payout ratio on distributable income ¹	92.8%	89.8%	93.2%	91.1%	91.8%

¹ Refer to non-IFRS measures section.

For the three months ended September 30, 2018 ("Q3 2018") and September 30, 2017 ("Q3 2017")

- The Company funded 15 new net mortgage investments (Q3 2017 – 7) totaling \$154.6 million (Q3 2017 – \$47.7 million), made additional advances on existing mortgage investments totaling \$28.0 million (Q3 2017 – \$46.1 million) and received full repayments on 7 mortgage investments (Q3 2017 – 11) and partial repayments totaling \$138.1 million (Q3 2017 – \$118.2 million). As a result, the net mortgage portfolio, net of foreign exchange translation loss of \$0.2 million, as at September 30, 2018 has increased by \$44.3 million to \$1,136.2 million (June 30, 2018 – \$1,091.9 million), or 4.1% from June 30, 2018.
- Other investments within the enhanced return portfolio was \$87.2 million, including an allowance for credit loss of \$197 (June 30, 2018 - \$83.5 million and \$233, respectively). Net increase of \$3.8 million in the quarter was mainly due to \$0.4 million in loan repayments, offset by \$1.6 million in loan advances, funding of \$0.2 million in a participating loan and funding of \$2.1 million in an indirect real estate development through a joint venture.
- Net investment income earned was \$24.5 million (Q3 2017 - \$23.5 million), an increase of \$1.0 million, or 4.0% from Q3 2017, mainly due to an increase in average net mortgage balance of \$1,121.8 million compared to \$1,082.9 million during Q3 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 third quarter was 7.5% compared to 7.3% in Q2 2018 (Q3 2017 - 7.2%).
- 43.4% of the total loan portfolio was invested in loans with floating rates.
- Non-refundable cash lender fees received was \$2.7 million (Q3 2017 – \$1.4 million) or a weighted average lender fees on mortgage investments of 1.0% (Q3 2017 – 1.6%).
- The Company generated income from operations of \$20.8 million (Q3 2017 – \$19.8 million), an increase of \$1.0 million or 5.1% from Q3 2017.

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

- The Company generated net income and comprehensive income of \$13.7 million (Q3 2017 – \$13.2 million) or earnings per share \$0.17, basic and diluted (Q3 2017 – \$0.18, basic and diluted). The Company declared \$13.7 million in dividends (Q3 2017 – \$12.7 million) to common shareholders, a payout ratio of 100.3% (Q3 2017 – 95.7%) on an earnings per share basis.
- The Company generated distributable income of \$14.8 million (Q3 2017 – \$14.1 million) or distributable income per share of \$0.19 (Q3 2017 – \$0.19), a payout ratio of 92.8% (Q3 2017 – 89.8%) on a distributable income basis.
- On July 3, 2018, the Company completed payment of \$35.1 million for redemption of 6.35% Convertible Unsecured Debentures.
- During Q3 2018, the Company issued 400,600 of common shares for gross proceeds of \$3,741 at an average price of \$9.34 per common share and paid \$76 in commission to the agent, pursuant to the equity distribution agreement 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.

For the nine months ended September 30, 2018 ("YTD 2018") and September 30, 2017 ("YTD 2017")

- The Company funded 39 new net mortgage investments (YTD 2017 – 36) totaling \$461.2 million (YTD 2017 – \$303.8 million), made additional advances on existing mortgage investments totaling \$96.8 million (YTD 2017 – \$88.7 million) and received full repayments on 32 mortgage investments (YTD 2017 – 43) and partial repayments totaling \$525.9 million (YTD 2017 – \$309.7 million). As a result, the net mortgage investment portfolio as at September 30, 2018 has increased by \$32.6 million, net of foreign exchange translation gain of \$0.5 million, to \$1,136.2 million (December 31, 2017 – \$1,103.6 million), or 4.1% from December 31, 2017.
- Other investments within the enhanced return portfolio was \$87.2 million (December 31, 2017 - \$57.9 million), a net increase of \$29.3 million in YTD 2018 (YTD 2017 - \$40.0 million).
- Net investment income earned was \$69.8 million (YTD 2017 – \$65.8 million), an increase of \$4.0 million, or 6.1% from YTD 2017 due to an increase in average net mortgage balances to \$1,118.7 million (YTD 2017 - \$1,044.5 million) and increase in other investments within the enhanced return portfolio to \$87.2 million (December 31, 2017 - \$57.9 million).
- The Company generated income from operations of \$59.3 million (YTD 2017 – \$55.7 million), an increase of \$3.6 million or 6.5% from YTD 2017.
- The Company generated net income and comprehensive income of \$37.8 million (YTD 2017 – \$39.3 million) or earnings per share \$0.48, basic and diluted (YTD 2017 – \$0.53, basic and diluted). The Company declared \$40.8 million in dividends (YTD 2017 – \$38.0 million) to common shareholders resulting in a payout ratio of 108.0% (YTD 2017 – 96.5%) on an earnings per share basis.
- The Company generated distributable income of \$43.8 million (YTD 2017 – \$41.6 million) or distributable income per share of \$0.56 (YTD 2017 – \$0.56) resulting in a payout ratio of 93.2% (YTD 2017 – 91.1%) 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 \$42.4 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, bringing the credit limit to \$440.0 million.
- On June 21, 2018, the Company entered into an equity distribution agreement with a Canadian financial institution to offer common shares ("ATM Program"), having an aggregate offering amount up to \$70 million for sale to the public.
- On July 3, 2018, the Company completed payment of \$35.1 million for redemption of 6.35% Convertible Unsecured Debentures.
- During Q3 2018, the Company issued 400,600 of common shares for gross proceeds of \$3,741 at an average price of \$9.34 per common share and paid \$76 in commission to the agent, pursuant to the ATM Program.
- 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.

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ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
Net income and comprehensive income	\$ 13,708	\$ 13,248	\$ 37,803	\$ 39,329	\$ 52,204
Less: amortization of lender fees	(2,478)	(2,008)	(6,010)	(5,664)	(7,858)
Add: lender fees received	2,711	1,393	8,983	5,038	6,802
Add: amortization of financing costs, credit facility	314	343	894	915	1,266
Add: amortization of financing costs, debentures	305	417	1,468	1,029	1,438
Add: accretion expense, debentures	61	89	322	223	314
Add: unrealized fair value (gain) loss on FPHFS ¹	40	193	80	193	193
Add: net operating loss (gain) on FPHFS	18	(27)	25	(110)	(69)
Add: net realized and unrealized foreign exchange (gain) loss	—	145	—	130	129
Add: unrealized (gain) loss on equity investments	(31)	(2)	(186)	2	43
Add: provision for mortgage investments loss	170	300	424	500	800
Distributable income ²	14,818	14,091	43,803	41,585	55,262
Less: dividends on common shares	(13,746)	(12,677)	(40,814)	(37,967)	(50,736)
Under distribution	\$ 1,072	\$ 1,414	\$ 2,989	\$ 3,618	\$ 4,526
Distributable income per share	\$ 0.19	\$ 0.19	\$ 0.56	\$ 0.56	\$ 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.

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 September 30,		% Change	Nine months ended September 30,		% Change
	2018	2017		2018	2017	
Net investment income	\$ 24,465	23,547	3.9 %	\$ 69,790	\$ 65,762	6.1 %
Net rental income	135	94	43.6 %	463	94	392.6 %
Expenses ¹	(3,774)	(3,809)	0.9 %	(10,911)	(10,123)	(7.8)%
Income from operations	20,826	19,832	5.0 %	59,342	55,733	6.5 %
Net operating (loss) income from foreclosed properties held for sale	(18)	27	(166.7)%	(25)	110	(122.7)%
Fair value loss on foreclosed properties held for sale	(40)	(193)	79.3 %	(80)	(193)	58.5 %
Loss on disposal of FPHFS	—	—	— %	—	(143)	100.0 %
Financing costs:						
Interest on credit facility	(4,836)	(3,519)	(37.4)%	(13,008)	(9,088)	(43.1)%
Interest on convertible debentures	(2,224)	(2,899)	23.3 %	(8,426)	(7,090)	(18.8)%
Net income and comprehensive income (basic)	\$ 13,708	\$ 13,248	3.5 %	\$ 37,803	\$ 39,329	(3.9)%
Net income and comprehensive income (diluted)	\$ 15,911	\$ 15,468	2.9 %	\$ 37,803	\$ 44,387	(14.8)%
Earnings per share (basic)	\$ 0.17	\$ 0.18		\$ 0.48	\$ 0.53	
Earnings per share (diluted)	\$ 0.17	\$ 0.18		\$ 0.48	\$ 0.53	

¹ Amounts include provision for mortgage investments loss.

Net investment income²

For Q3 2018 and YTD 2018, the Company earned net investment income of \$24.5 million and \$69.8 million (Q3 2017 – \$23.5 million; YTD 2017 – \$65.8 million). Net investment income includes the following:

a. Interest income

During Q3 2018 and YTD 2018, the Company earned \$21.8 million and \$63.2 million (Q3 2017 – \$26.8 million; YTD 2017 – \$78.2 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 Q3 2018 increased to 7.3% compared to 7.0% in Q3 2017 and YTD 2018 remain unchanged at 7.1% compared to YTD 2017.

b. Lender fee income

During Q3 2018 and YTD 2018, the Company received non-refundable cash lender fees of \$2.7 million and \$9.0 million (Q3 2017 – \$1.4 million; YTD 2017 – \$5.0 million), or a weighted average lender fee of 1.0% and 1.1%, respectively (Q3 2017 – 1.6%; YTD 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 Q3 2018 and YTD 2018, lender fees of \$2.5 million and \$6.0 million (Q3 2017 – \$2.0 million; YTD 2017 – \$5.7 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 Q3 2018 and YTD 2018, the Company earned other income of \$167 and \$397 (Q3 2017 - \$1.0 million; YTD 2017 - \$1.1 million).

Net rental income from investment properties

The net rental income from investment properties for Q3 2018 and YTD 2018 was \$135 and \$463, respectively (Q3 2017 and YTD 2017 – \$94).

Expenses

For Q3 2018 and YTD 2018, the expense ratio was 1.1% (Q3 2017 and YTD 2017 – 1.2% and 1.1%)

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 Q3 2018 and YTD 2018, the Company incurred management fees of \$3.0 million and \$8.8 million (Q3 2017 – \$2.7 million; YTD 2017 – \$7.8 million). The increase is directly related to the increase in gross assets averaging \$1,250.6 million in YTD 2018, compared to \$1,111.1 million in YTD 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 Q3 2018 and YTD 2018, the Company incurred \$158 and \$459, respectively (Q3 2017 and YTD 2017 – \$164 and \$483) in servicing fees.

General and administrative

For Q3 2018 and YTD 2018, the Company incurred general and administrative expenses of \$472 and \$1,247, respectively (Q3 2017 – \$597; YTD 2017 – \$1,330). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage 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 Q3 2018 and YTD 2018 relating to the credit facility were \$4.5 million and \$12.0 million, respectively (Q3 2017 – \$3.4 million; YTD 2017 – \$8.9 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 YTD 2018 was \$367.2 million compared to \$323.7 million in YTD 2017. As at September 30, 2018, the Company had a credit facility balance of \$413.4 million (December 31, 2017 - \$365.9 million).

As at September 30, 2018, the Company has incurred financing costs of \$4.1 million relating to the credit facility, which includes upfront fees, legal and other costs. During Q3 2018 and YTD 2018, the Company incurred additional financing costs of \$82 and \$332, 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 Q3 2018 and YTD 2018, included in financing costs is interest on the credit facility of \$4.2 million and \$11.2 million (Q3 2017 – \$3.0 million; YTD 2017 – \$8.0 million) and financing costs amortization of \$298 and \$848 (Q3 2017 – \$343; YTD 2017 – \$915).

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%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$219.1 million. The Company's share of the carrying value is \$45.7 million.

As at September 30, 2018, the Company had a credit facility balance of \$32.4 million (December 31, 2017 - \$30.2 million). Financing costs for Q3 2018 and YTD 2018 relating to the credit facility were \$354 and \$1,001, respectively (Q3 2017 and YTD 2017 - \$149).

As at September 30, 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. Refer to note 17 of the Interim Condensed Consolidated Financial Statements for the three months and nine months ended September 30,

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2018 and 2017 for risk management details. As at September 30, 2018, \$158.8 million was outstanding on the credit facility. The Company's share of the outstanding amount is \$32.5 million.

Interest on convertible debentures

The Company has \$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 September 30, 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Interest on the convertible debentures	\$ 1,858	\$ 2,392	\$ 6,636	\$ 5,836
Amortization of issue costs	305	418	1,468	1031
Accretion of the convertible debentures	61	89	322	223
Total	\$ 2,224	\$ 2,899	\$ 8,426	\$ 7,090

Earnings per share

For Q3 2018 and YTD 2018, basic and diluted earnings per share were \$0.17 and \$0.48, respectively (Q3 2017 – \$0.18; YTD 2017 – \$0.53).

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:

	September 30, 2018	December 31, 2017
Mortgage investments, including mortgage syndications	\$ 1,728,850	\$ 1,554,369
Mortgage syndication liabilities	(583,688)	(440,648)
	1,145,162	1,113,721
Interest receivable	(18,441)	(16,742)
Unamortized lender fees	8,207	5,584
Allowance for mortgage investments loss	1,308	1,081
Net mortgage investments	\$ 1,136,236	\$ 1,103,644

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	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2018	2017	2018	2017	2017
Net mortgage investments statistics and ratios¹					
Total number of net mortgage investments	121	116	121	116	114
Average net mortgage investment	\$ 9,023	\$ 9,336	\$ 9,023	\$ 9,336	\$ 9,686
Average net mortgage investment portfolio	\$ 1,121,798	\$ 1,082,895	\$ 1,118,669	\$ 1,044,505	\$ 1,147,004
Weighted average interest rate for the period	7.3%	7.0%	7.1%	7.1%	7.0%
Weighted average lender fees	1.0%	1.6%	1.1%	1.0%	1.0%
Turnover ratio	12.1%	9.5%	15.6%	27.9%	40.3%
Weighted average term (years)	2.9	2.8	2.9	2.8	2.9
Remaining term to maturity (years)	1.1	1.2	1.1	1.2	1.1
Net mortgage investments secured by cash-flowing properties	84.5%	85.9%	84.5%	85.9%	86.7%
Weighted average loan-to-value	66.6%	65.6%	66.6%	65.6%	66.0%

¹ Refer to non-IFRS measures section.

Portfolio allocation

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

a. Security position

	September 30, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
First mortgages	109	91.5%	102	93.0%
Non-first mortgages	12	8.5%	12	7.0%
	121	100.0%	114	100.0%

b. Region

	September 30, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Ontario	60	46.4%	54	55.0%
British Columbia	24	21.9%	17	12.2%
Alberta	10	13.7%	9	12.1%
Quebec	15	8.4%	18	13.5%
Other	12	9.6%	16	7.2%
	121	100.0%	114	100.0%

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c. Maturity

	September 30, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Maturing				
2018	27	25.2%	58	50.0%
2019	39	26.6%	35	29.0%
2020	42	39.7%	17	18.0%
2021	12	8.4%	3	2.9%
2022 and thereafter	1	0.1%	1	0.1%
	121	100.0%	114	100.0%

d. Asset type

	September 30, 2018		December 31, 2017	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Multi-residential	61	38.7%	62	50.1%
Retail	20	19.6%	15	14.1%
Unimproved land	11	11.9%	10	7.0%
Hotels	4	8.0%	4	8.2%
Retirement	5	4.3%	6	9.3%
Industrial	7	5.4%	6	2.1%
Office	8	8.4%	7	7.1%
Self-storage	3	2.0%	2	0.5%
Other-residential	1	1.6%	1	1.5%
Single-family residential	1	0.1%	1	0.1%
	121	100.0%	114	100.0%

Enhanced return portfolio

As at September 30, 2018, enhanced return portfolio was \$100.4 million, which include \$87.2 million (December 31, 2017 – \$57.9 million) of other investments and \$13.2 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 September 30, 2018, the Company has \$69.2 million (December 31, 2017 – \$44.9 million) of collateralized loan investments, \$6.0 million (December 31, 2017 – \$5.9 million) of financing lease receivable, \$7.5 million (December 31, 2017 – \$2.2 million) of indirect development properties, \$4.5 million of a participating loan (December 31, 2017 – \$1.7 million) and no investment in marketable securities (December 31, 2017 – \$3.1 million).

During Q3 2018 and YTD 2018, other investments generated net interest income of \$2.0 million and \$4.6 million (Q3 2017 - \$1.4 million and YTD 2017 – \$3.0 million) with a weighted average interest rate of 11.2% and 11.5%, respectively (Q3 2017 - 11.0% and YTD 2017 – 11.3%). During Q3 2018 and YTD 2018, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities, of \$333 and \$114 (Q3 2017 – \$97 and YTD 2017 – \$177), respectively. During Q3 2018 and YTD 2018, the Company received total lender fees on other investments, of \$97 and \$682, respectively (Q3 2017 – nil and YTD 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 Interim Condensed Consolidated Financial Statements for the three months and nine months ended September 30, 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 September 30, 2018, the Company's share of the investment properties has an aggregate fair value of \$45.7 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 September 30, 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 \$583.7 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 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 \$1,505 as at September 30, 2018, of which \$1,308 was recorded in mortgage investments and \$197 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 borrower specific criteria identified by the Manager.

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.

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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	863,094	—	2,752	865,846
Mortgage syndication liabilities, including interest receivable	384,600	—	—	384,600
Net	478,494	—	2,752	481,246
Allowance for loan losses	566	—	3	569
Mortgage investments, net of allowance and mortgage syndications	477,928	—	2,749	480,677

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	801,702	—	37,256	838,958
Mortgage syndication liabilities, including interest receivable	225,339	—	—	225,339
Net	576,363	—	37,256	613,619
Allowance for loan losses	276	—	463	739
Mortgage investments, net of allowance and mortgage syndications	576,087	—	36,793	612,880

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	69,949	—	—	69,949
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	69,949	—	—	69,949
Allowance for loan losses	197	—	—	197
Other loan Investments, net of allowance and mortgage syndications	69,752	—	—	69,752

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

Multi-residential	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	493	—	3	496
Provision for credit losses				
Remeasurement	103	—		103
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
Total provision for credit losses	596	—	3	599
Fundings	152	—	—	152
Repayments	(182)	—	—	(182)
Balance at end of period	566	—	3	569
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	143	—	463	606
Provision for credit losses				
Remeasurement	129	—	—	129
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
Total provision for credit losses	272	—	463	735
Fundings	7	—	—	7
Repayments	(3)	—	—	(3)
Balance at end of period	276	—	463	739
Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	233	—	—	233
Provision for credit losses				
Remeasurement	(36)	—	—	(36)
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
Total provision for credit losses	197	—	—	197
Fundings	—	—	—	—
Repayments	—	—	—	—
Balance at end of period	197	—	—	197

Net working capital

Net working capital increased by \$2.2 million to \$16.5 million at September 30, 2018 from \$14.3 million at December 31, 2017.

Credit facility - mortgage investments

Currently, the Company has \$440 million in credit facility with 10 Canadian banks and the facility is 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 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 September 30, 2018, the Company's qualified credit facility limit is \$421.7 million and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at September 30, 2018, the Company has incurred financing costs of \$4.1 million relating to the credit facility, which includes upfront fees, legal and other costs. During Q3 2018 and YTD 2018, the Company incurred additional financing costs of \$82 and \$332, 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 Q3 2018 and YTD 2018, included in financing costs is interest on the credit facility of \$4.2 million and \$11.2 million (Q3 2017 and YTD 2017 – \$3.0 million and \$8.0 million) and financing costs amortization of \$298 and \$848 (Q3 2017 and YTD 2017 – \$343 and \$915).

Credit facility - investment properties

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement. Under the terms of the agreement, the co-ownerships have a maximum available credit of \$162.6 million. The gross initial advance on the credit facility by the co-owners was \$144.6 million. The company's share of the initial advance was \$29.6 million plus \$109 of unamortized financing costs. This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$219.1 million.

For Q3 2018 and YTD 2018, included in financing costs are interest on the credit facility of \$338 and \$955 (Q3 2017 and YTD 2017 – \$142 and \$142) and financing costs amortization of \$16 and \$46 (Q3 2017 and YTD 2017 – \$7 and \$7).

As at September 30, 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

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cross-currency swaps to effectively converting the LIBOR loans into Canadian dollar loans. Refer to note 17 for risk management details. As at September 30, 2018, \$158.8 million was outstanding on the credit facility. The Company's share of the outstanding amount is \$32.5 million.

Convertible debentures

The debentures are comprised of as follows:

	September 30, 2018	December 31, 2017
Issued	\$ 136,800	\$ 171,300
Issue costs, net of amortization	(4,606)	(6,074)
Equity component	(2,043)	(2,043)
Issue costs attributed to equity component	105	105
Cumulative accretion	980	658
Debentures, end of period	\$ 131,236	\$ 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 \$42.4 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.

During Q3 2018, the Company issued 400,600 of common shares for gross proceeds of \$3,741 at an average price of \$9.34 per common share and paid \$76 in commission to the agent, pursuant to the 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 Q3 2018 and YTD 2018, the Company declared dividends of \$13.7 million and \$40.8 million, or \$0.173 and \$0.518 per the Company common share (Q3 2017 – \$12.7 million, \$0.171 per share; YTD 2017 – \$38.0 million, \$0.513 per share). As at September 30, 2018, \$4.6 million in aggregate dividends (December 31, 2017 – \$4.3 million) was payable to the holders of common shares by the Company. Subsequent to September 30, 2018, the Board of Directors of the Company declared dividends of \$0.058 per common share to be paid on October 15, 2018 and November 15, 2018 to the common shareholders of record on September 28, 2018 and October 31, 2018, 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 Q3 2018 and YTD 2018, no common shares were purchased on the open market (Q3 2017 – nil; YTD 2017 – 37,603), and 127,563 and 378,160 (Q3 2017 - 116,339 and YTD 2017 – 309,076) 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 Q3 2018 and YTD 2018, 5,650 and 44,141 units were issued and outstanding (Q3 2017 and YTD 2017 - 6,437 and 17,587) and no DSUs were exercised or cancelled resulting in a DSU expense of \$76 and \$169 based on a Fair Market Value of \$9.31 (\$50 and \$160 based on a Fair Market Value of \$9.32) per common share. As at September 30, 2018, \$76 in quarterly compensation was granted in DSUs, which will be issued subsequent to September 30, 2018 at the Fair Market Value.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for Q3 2018 and YTD 2018 was \$18.7 million and \$58.5 million (Q3 2017 – \$21.5 million; YTD 2017 – \$51.7 million).

Cash from (used in) financing activities

Cash used in financing activities for Q3 2018 and YTD 2018 consisted of the Company's net advances on the operating credit facility of \$46.7 million and net advances of \$47.5 million (Q3 2017 – \$23.1 million of net advances; YTD 2017 – \$40.0 million of net advances) as well as advances of \$0.9 million and \$2.3 million during Q3 2018 and YTD 2018 (Q3 2017 and YTD 2017 – \$29.6 million) on the investment properties credit facility.

The Company received net proceeds of \$46.0 million from the issuance of common shares and paid \$35.1 million for redemption of convertible debenture in YTD 2018. The Company paid interest on the debentures and credit facilities of \$8.6 million and \$22.3 million (Q3 2017 – \$4.5 million; YTD 2017 – \$12.1 million), and common share dividends of \$12.6 million and \$37.1 million (Q3 2017 – \$11.6 million; YTD 2017 – \$34.8 million). The net cash from financing activities for Q3 2018 and YTD 2018 was \$30.0 million and \$2.0 million (Q3 2017 – used in and from \$9.5 million and YTD 2017 – \$108.7 million, respectively).

Cash used in investing activities

Net cash received and used in investing activities in Q3 2018 and YTD 2018 was \$48.9 million and \$60.6 million (Q3 2017 – \$11.3 million; YTD 2017 – \$159.5 million) and consisted of the funding of net mortgage investments of \$182.6 million and \$552.9 million (Q3 2017 – \$93.8 million; YTD 2017 – \$334.4 million), funding \$0.8 million and \$2.9 million in investment properties (Q3 2017 and YTD 2017 - \$41.3 million), offset by repayments of net mortgage investments of \$138.1 million and \$524.8 million (Q3 2017 – \$118.2 million; YTD 2017 – \$257.4 million), funding of other investments of \$3.9 million and \$47.1 million (Q3 2017 – \$786 and YTD 2017 – \$49.0 million), offset by repayments of other investments of \$0.4 million and \$17.6 million (Q3 2017 and YTD 2017 – \$6.3 million and \$7.3 million).

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QUARTERLY FINANCIAL INFORMATION

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net investment income ¹	\$ 24,465	\$ 23,477	\$ 21,847	\$ 23,178	\$ 23,547	\$ 21,448	\$ 20,764	\$ 20,583
Net rental income	135	179	149	99	94	—	—	—
Expenses ²	(3,774)	(3,752)	(3,386)	(3,633)	(3,809)	(3,091)	(3,223)	(2,643)
Income from operations ¹	20,826	19,904	18,610	19,644	19,832	18,357	17,541	17,940
Net operating (loss) gain from FPHFS	(18)	(5)	(2)	(40)	27	19	64	3
Fair value (loss) gain of FPHFS	(40)	(40)	—	146	(193)	(143)	—	(500)
Financing costs:								
Interest on credit facility	(4,836)	(4,111)	(4,061)	(3,987)	(3,519)	(2,831)	(2,737)	(2,833)
Interest on convertible debentures	(2,224)	(3,321)	(2,880)	(2,887)	(2,899)	(2,267)	(1,923)	(1,448)
Total financing costs	(7,060)	(7,432)	(6,941)	(6,874)	(6,418)	(5,098)	(4,660)	(4,281)
Total net income and comprehensive income (basic)	\$ 13,708	\$ 12,427	\$ 11,667	\$ 12,876	\$ 13,248	\$ 13,135	\$ 12,945	\$ 13,078
Total net income and comprehensive income (diluted)	\$ 15,911	\$ 12,427	\$ 12,359	\$ 15,080	\$ 15,468	\$ 14,589	\$ 13,695	\$ 14,526
Earnings per share (basic)	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Earnings per share (diluted)	\$ 0.17	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.18
Distributable income ¹	\$ 14,818	\$ 15,477	\$ 13,508	\$ 13,681	\$ 14,091	\$ 14,080	\$ 13,410	\$ 13,905
Distributable income per share ¹	\$ 0.19	\$ 0.20	\$ 0.18	\$ 0.18	\$ 0.19	\$ 0.19	\$ 0.18	\$ 0.19

¹ Refer to non-IFRS measures section.

² Amounts include provision for mortgage investments loss.

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

- i. In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;
- ii. Within expenses, the Company accrues the performance fee payable to the Manager. Given that the performance fee is adjusted for cash items, the volatility of cash receipts in the year (mainly relating to lender fees) will typically have an impact on the amount expensed in any quarter;
- iii. In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and provision for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;
- iv. The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs; and
- v. 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 September 30, 2018, Due to Manager includes mainly management and servicing fees payable of \$1.1 million (December 31, 2017 - \$1.1 million).

As at September 30, 2018, included in other assets is \$2.8 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 September 30, 2018,

- 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 was \$29.1 million (December 31, 2017 – \$29.1 million). During Q2 2018, the mortgage investment was fully repaid (December 31, 2017 – \$15.1 million). During Q3 2018 and YTD 2018, the Company has recognized net interest income of nil and \$460 (Q3 2017 – \$242; YTD 2017 – \$606) 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 September 30, 2018. During Q3 2018 and YTD 2018, the Company has recognized net interest income of \$86 and \$258 (Q3 2017 – \$85; YTD 2017 – \$255) 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 September 30, 2018. During Q3 2018 and YTD 2018, the Company has recognized net interest income of \$40 and \$121 (Q3 2017 \$38 and YTD 2017 – \$117) 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 was \$1.9 million (December 31, 2017 – \$1.9 million), of which \$1.9 million has been funded as at September 30, 2018(December 31, 2017 – \$1.9 million). During Q3 2018 and YTD 2018, the Company has recognized net interest income of \$25 and \$86 (Q3 2017 \$29 and YTD 2017 – \$86) 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 \$2.5 million (December 31, 2017 – \$2.4 million) has been funded as at September 30, 2018. During Q3 2018 and YTD 2018, the Company has recognized net interest income of \$59 and \$181 (Q3 2017 and YTD 2017 – \$21) from this mortgage investment during the period.

As at September 30, 2018, the Company and Timbercreek Four Quadrant Global Real Estate Partners (“T4Q”) and Timbercreek Real Estate Financing U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 19 (December 31, 2017 – 19) gross mortgage investments totaling \$384.5 million (December 31, 2017 – \$358.0 million). The Company’s share in these gross mortgage investments is \$194.6 million (December 31, 2017 – \$172.2 million). Included in these amounts is two net mortgage investment (December 31, 2017 – one) totaling \$22.7 million (December 31, 2017 – \$5.7 million) loaned to limited partnerships in which T4Q is invested.

As at September 30, 2018, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$4.5 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 at September 30, 2018, the Company and T4Q invested in two indirect real estate developments through two investees, totaling \$7.5 million (December 31, 2017 - one and \$2.2 million).

As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. During Q3 2018 and YTD 2018, Property Management Fees of \$37 and \$98 were charged by the Manager to the Company (Q3 2017 and YTD 2017 – \$13). As at September 30, 2018, \$13 was payable to the Manager (December 31, 2017 – \$20).

The above related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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 new judgment areas 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 borrower specific criteria as identified by the Manager.

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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	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 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 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 November 12, 2018, the Company's authorized capital consists of an unlimited number of common shares, of which 81,564,801 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 \$440.0 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 September 30, 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.

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The following are the contractual maturities of financial liabilities as at September 30, 2018, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 3,026	\$ 3,026	\$ 3,026	\$ —	\$ —
Dividends payable	4,595	4,595	4,595	—	—
Due to Manager	1,099	1,099	1,099	—	—
Mortgage funding holdbacks	656	656	656	—	—
Prepaid mortgage interest	1,853	1,853	1,853	—	—
Credit facility – mortgage investments ¹	412,008	433,410	17,088	416,322	—
Credit facility – investment properties ²	32,430	33,626	33,626	—	—
Convertible debentures ³	131,236	146,795	52,753	94,042	—
	\$ 586,903	\$ 625,060	\$ 114,696	\$ 510,364	\$ —
Unadvanced mortgage commitments ⁴	—	201,746	201,746	—	—
Total contractual liabilities	\$ 586,903	\$ 826,806	\$ 316,442	\$ 510,364	\$ —

¹ Credit facility - mortgage investments includes interest based upon September 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 September 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 \$30.3 million.

As at September 30, 2018, the Company had a cash position of \$487 (December 31, 2017 – \$700), an unutilized credit facility – mortgage investments balance of \$26.6 million (December 31, 2017 – \$34.1 million) and an unutilized credit facility – investment properties balance of \$794 (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 \$30.3 million out of \$201.7 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.

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 September 30, 2018, \$509.7 million of net mortgage investments and \$19.3 million of other investments bear interest at variable rates. \$478.2 million and \$5.5 million of net mortgage investments and other investments have a "floor or ceiling rate". 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 \$1.6 million or an increase in net income of \$2.6 million, 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 \$445.9 million as at September 30, 2018. Based on the outstanding credit facility balance as at September 30, 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 \$2.2 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 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 September 30, 2018, the Company has net mortgage, credit facility - investment properties and other investments denominated in foreign currencies of US\$13.2 million in net mortgage, US\$22.7 million in credit facility - investment properties and €2.9 million in other investments (December 31, 2017 – US\$20.7 million, nil and €1.1million). The Company has entered into a series of foreign currency contracts to reduce the its exposure to foreign currency risk. As at September 30, 2018, the Company has three U.S. dollars currency contracts with an aggregate notional value of US\$13.2 million, at a weighted average forward contract rate of 1.2995 and maturity dates between October 2018 and May 2019, and seven Euro currency contracts with an aggregate notional value of €2.9 million at an average contract rate of 1.5376, maturing in October 2018. The Company has entered into a cross-currency swap to effectively hedge the LIBOR loans with notional value of US\$22.7 million, which resets 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 September 30, 2018 is an asset of \$252 which is included in other assets. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

c. Credit risk

Credit risk is the 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 September 30, 2018 relating to net mortgages and other investments amount to \$1,239.0 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.

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.

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 September 30, 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 September 30, 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 period ended September 30, 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

Write to the Company at:

Timbercreek Financial

Attention: Corporate Communications

25 Price Street Toronto, Ontario M4W 1Z1