

Management's Discussion and Analysis

Timbercreek Financial

For the three months and nine months ended September 30, 2016



Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

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

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

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Company and Timbercreek Asset Management Inc. (the "Manager") do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

This MD&A is dated November 8, 2016. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekmic.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

BUSINESS OVERVIEW

Timbercreek Financial, previously known as Timbercreek Mortgage Investment Corporation ("TMIC"), is a leading non-bank lender providing financing solutions to qualified real estate prospective borrowers who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement for real estate investors that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term loans 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" loans 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, through its Manager, has established preferred lender status with many active real estate investors by providing prompt response to requests made by borrowers to facilitate quick execution on investment opportunities and by providing market loan terms that combine the flexibility required by borrowers in order to maximize their efficiencies in executing on opportunities and realizing on profits. Timbercreek Financial works with borrowers throughout the terms of their loans to ensure that their capital requirements are met and, if requested, considers modifications of or extensions to the terms of their loans 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, 2016 ("Q3 2016" and "YTD 2016", respectively). This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 and 2015 and the audited consolidated financial statements for the years ended December 31, 2015 and 2014, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, as applicable to interim financial statement, including International Accounting Standards 34, Interim Financial Reporting.

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

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

NON-IFRS MEASURES

The Company prepares and releases consolidated financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the "non-IFRS measures"). These non-IFRS measures are further described below. The Company has presented such non-IFRS measures because the Manager believes they are relevant measures of the Company's ability to earn and distribute cash dividends to shareholders and to evaluate its performance.

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

- 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;
- 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 the total of gross convertible debentures and the total credit facility balance divided by total assets less mortgage syndication liabilities;
- Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period;
- Weighted average lender fees – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment;
- Net interest income – represents interest income, fee income and other income excluding any income, fee income and other income from mortgage syndications;
- Income from operations – represents income before non-operating items such as net operating gain (loss) from foreclosed properties held for sale, fair value adjustments on foreclosed properties held for sale, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain and financing costs;
- Adjusted total comprehensive income – represents total 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 comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company's ability to generate recurring cash flows for dividends by removing the effect of lender fees, amortization, accretion, fair value adjustments, provisions for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain from total 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 (income) loss on foreclosed properties held for sale (“FPHFS”), fair value adjustment on FPHFS, provision for mortgage investments (loss), termination of

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

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; and
- Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total comprehensive income for the stated period.
- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

RECENT DEVELOPMENTS AND OUTLOOK

Q3 2016 was the first full quarter of operations for Timbercreek Financial. Our vision for the Company is to be Canada's largest non-bank commercial mortgage lender. Financial and operational results in the quarter have already demonstrated progress towards achieving that vision.

Portfolio Activity

The net value of our commercial mortgage portfolio was approximately \$1.0 billion at the end of Q3 2016. Risk management remains a top priority for our portfolio, which is achieved through a variety of strategies, including a focus on lending against income-producing assets. At quarter end, 85.7% of the mortgage investments were secured by properties with existing rental income, up slightly from Q2 2016, and in line with management's expectations. More than 50% of the portfolio was secured by multi-residential real estate (apartment buildings), which we believe is an asset class with highly stable cash-flow streams.

Our exposure to first mortgages, which are lower risk, was 82.3%, up from 81.1% in Q2 2016, and well ahead of our internal target of 75%. Our weighted average loan-to-value (LTV) ratio was 66.4%, again below our internal target of 70%. Our weighted average interest rate during Q3 2016 was 7.5%. The spot weighted average interest rate at the end of Q3 2016 was 7.4% compared to a spot rate of 7.5% at the end of Q2 2016. Over time we expect this average interest rate to decline modestly as we use available capacity in our credit facility to invest in lower yielding mortgages that carry lower risk. The net effect of this strategy is expected to be a lower risk portfolio that is able to maintain, or increase, its earnings per share.

With a seasoned origination team and national platform, Timbercreek Financial continues to see strong new transaction activity. We funded 18 new loans in the quarter totalling \$155.7 million which allowed us to draw on the credit facility to \$307.7 million at the end of Q3 2016 from \$235.0 million at the end of Q2 2016. \$42.3 million of unused capacity remains in our credit facility.

Portfolio turnover was 7.4% in Q3 2016, compared to 15.5% in Q2 2016. Portfolio turnover was lower in Q3 2016 due primarily to the higher levels of new funding experienced in the first half of the year. Our expectation is that turn-over will revert back to more traditional levels in the coming quarters.

Diversification remains a key component of our risk management strategy and we continue to focus on maintaining portfolio diversification by geography, property type and borrower. Exposure in Alberta was down slightly in Q3 2016 and while we are starting to see more quality investment opportunities in Alberta, we continue to exercise caution in that market.

Market Activity

We believe that fundamentals in the commercial mortgage market generally remain healthy. Our market assessment is based primarily on the continued demand we see for investment properties from both domestic and foreign institutional investors. For domestic investors, low mortgage rates are a stimulative force, while foreign investors are also attracted by the low dollar.

In recent weeks, news headlines have been dominated by the Federal Government's introduction of new mortgage rules targeting the residential real estate market. Given our portfolio composition and strategy, we expect that these rules will have little effect on our business. We do not have any exposure to insured residential mortgages, which are the target of the rule changes. Our focus is primarily in lending against income-producing investment properties, including commercial real estate and multi-residential rental apartments. The single family and condominium markets - segments that could be negatively impacted given the rule changes are expected to reduce home ownership levels - represent less than 5% of our portfolio. On the other hand, more than half of our mortgage portfolio is secured by multi-residential real estate which we believe will benefit from the new mortgage rules as a reduction in home ownership is expected to improve occupancy levels in rental properties.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	September 30, 2016	September 30, 2015	December 31, 2015
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 1,548,525	\$ 744,568	\$ 750,704
Total assets	\$ 1,563,015	\$ 760,880	\$ 766,734
Credit facility balance	\$ 307,696	\$ 59,078	\$ 53,813
Convertible debentures	\$ 76,518	\$ 32,760	\$ 32,778
Total liabilities	\$ 916,791	\$ 397,987	\$ 404,405
CAPITAL STRUCTURE			
Shareholders' equity	\$ 646,224	\$ 362,893	\$ 362,329
Convertible debentures, par	\$ 80,300	\$ 34,500	\$ 34,500
Credit facility limit	\$ 350,000	\$ 60,000	\$ 60,000
Leverage ¹	37.3%	20.3%	19.3%
COMMON SHARE INFORMATION			
Number of common shares outstanding	73,858,499	40,546,428	40,523,728
Closing trading price	\$ 8.10	\$ 7.67	\$ 7.58
Market capitalization	\$ 598,254	\$ 310,991	\$ 307,170

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

Operating Results

	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Net interest income ¹	\$ 19,119	\$ 10,161	\$ 40,839	\$ 32,189	\$ 43,004
Income from operations ¹	\$ 16,424	\$ 7,016	\$ 33,291	\$ 24,322	\$ 32,750
Total comprehensive income (basic)	\$ 12,403	\$ 6,160	\$ 32,922	\$ 21,116	\$ 28,021
Total comprehensive income (diluted)	\$ 13,581	\$ 6,833	\$ 35,431	\$ 23,121	\$ 30,592
Earnings per share (basic)	\$ 0.17	\$ 0.15	\$ 0.64	\$ 0.52	\$ 0.69
Earnings per share (diluted)	\$ 0.17	\$ 0.15	\$ 0.63	\$ 0.52	\$ 0.69
Adjusted total comprehensive income (basic) ¹	\$ 12,403	\$ 6,160	\$ 26,779	\$ 21,116	\$ 28,021
Adjusted total comprehensive income (diluted) ¹	\$ 13,581	\$ 6,833	\$ 29,288	\$ 23,121	\$ 30,592
Adjusted earnings per share (basic and diluted) ¹	\$ 0.17	\$ 0.15	\$ 0.52	\$ 0.52	\$ 0.69
Dividends					
Dividends to shareholders	\$ 12,677	\$ 7,311	\$ 27,265	\$ 21,956	\$ 29,253
Dividends per common share	\$ 0.171	\$ 0.180	\$ 0.531	\$ 0.540	\$ 0.720
Payout ratio on earnings per share ¹	103.3%	118.7%	83.1%	104.0%	104.4%
Distributable income ¹	\$ 13,838	\$ 7,161	\$ 28,730	\$ 22,230	\$ 29,484
Distributable income per share ¹	\$ 0.19	\$ 0.18	\$ 0.55	\$ 0.55	\$ 0.73
Payout ratio on distributable income ¹	91.6%	102.1%	94.9%	98.8%	99.2%

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

ACQUISITION OF TSMIC

On June 30, 2016 (the "Effective Date"), TMIC amalgamated with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") to form a single entity called Timbercreek Financial Corp. under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TF".

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

The Amalgamation resulted in each TMIC shareholder receiving one share of the Company for each TMIC share held and each TSMIC shareholder receiving 1.035 shares of the Company for each TSMIC share held.

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

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

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

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

In connection with the Amalgamation:

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's revenue YTD 2016 would have been \$55.4 million and the net income for the period would have been \$40.7 million, inclusive of \$4.7 million of net non-recurring gains and costs related to the Amalgamation.

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

The three months and nine months ended September 30, 2016 periods include the financial positions and operations of TSMIC beginning on June 30, 2016, the Effective Date. Results prior to June 30, 2016, reflect the operations of the Company formerly known TMIC only.

For the three months ended September 30 2016 ("Q3 2016") and September 30, 2015 ("Q3 2015")

- The Company funded 18 new net mortgage investments (Q3 2015 – nine) totalling \$155.7 million (Q3 2015 – \$75.5 million), made additional advances on existing mortgage investments totalling \$39.2 million (Q3 2015 – \$19.1 million) and received full repayments on 10 mortgage investments (Q3 2015 – 12) and partial repayments totalling \$68.3 million (Q3 2015 – \$43.5 million). As a result, the net mortgage investment portfolio as at September 30, 2016 has increased by \$126.6 million to \$1,020.5 million (June 30, 2016 – \$893.9 million), or an increase of 14.2% from June 30, 2016.
- Non-refundable cash lender fees received was \$2.2 million (Q3 2015 – \$1.1 million) or a weighted average lender fee of 1.0% (Q3 2015 – 1.3%) which is in-line with management's expectations.
- Net interest income earned was \$19.1 million (Q3 2015 – \$10.2 million), an increase of \$8.9 million, or 88.2% from Q3 2015. The increase in net interest income is mainly attributable to the Amalgamation as Q3 2016 is the first full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$16.4 million (Q3 2015 – \$7.0 million), an increase of \$9.4 million, or 134.1%, from Q3 2015. The increase in income from operations is mainly attributable to the Amalgamation as Q3 2016 is the first full quarter in operations reflects the results of the Amalgamation.
- The Company generated total comprehensive income of \$12.4 million (Q3 2015 – \$6.2 million) or earnings per share \$0.17 (Q3 2015 – \$0.15).
- The Company generated distributable income of \$13.8 million (Q3 2015 – \$7.2 million) in the quarter resulting in a payout ratio of 91.6% (Q3 2015 – 102.1%) and declared in dividends \$12.7 million (Q3 2015 – \$7.3 million) to common shareholders. Total dividends to common shareholders has increased as a direct result of the Amalgamation.
- On July 29, 2016, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40 million. The unsecured convertible debentures will mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31 at a rate of 5.40% per annum. On August 3, 2016, the underwriters exercised the over-allotment option for an additional \$5.8 million.
- Commencing June 30, 2016, the Company has instituted a non-executive director deferred share unit plan (the "Plan") whereby up to 100% of the compensation for a director may be paid to the director in the form of deferred share units

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

("DSUs"), payable quarterly in arrears. The independent directors have elected to receive 100% of their director's fees in DSU or \$37 in DSUs. This Plan will create better alignment with shareholders of the Company.

- On July 14, 2016, the Company implemented a dividend reinvestment plan ("DRIP"). The DRIP provides eligible beneficial and registered holders of common shares of the Company to reinvest cash dividends in additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury.

For the nine months ended September 30 2016 ("YTD 2016") and September 30, 2015 ("YTD 2015")

- As part of the Amalgamation, the Company has acquired the net mortgage investment portfolio of \$469.5 million from TSMIC. In addition, the Company funded 46 new net mortgage investments (YTD 2015 – 40) totalling \$262.1 million (YTD 2015 – \$200.0 million), made additional advances on existing mortgage investments totalling \$69.5 million (YTD 2015 – \$47.1 million), and received full repayments on 31 mortgage investments (YTD 2015 – 35) and partial repayments totalling \$220.1 million (YTD 2015 – \$200.1 million). As a result, the net mortgage investment portfolio as at September 30, 2016 has increased by \$581.0 million to \$1,020.5 million (December 31, 2015 – \$439.5 million), or an increase of \$581.1 million or 132.2% from December 31, 2015.
- Non-refundable cash lender fees received was \$4.4 million (YTD 2015 – \$3.3 million) or a weighted average lender fee of 1.2% (YTD 2015 – 1.4%).
- Net interest income was \$40.8 million (YTD 2015 – \$32.2 million), an increase of \$8.6 million, or 26.9%, from YTD 2015. The increase in income from operations is mainly attributable to the Amalgamation as Q3 2016 is the first full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$33.3 million (YTD 2015 – \$24.3 million), an increase of \$9 million, or 36.9%, from YTD 2015. The increase in income from operations is mainly attributable to the Amalgamation as Q3 2016 is the first full quarter in operations after the Amalgamation.
- The Company generated total comprehensive income of \$32.9 million (YTD 2015 – \$21.1 million) or basic and diluted earnings per share of \$0.64 and \$0.63 (YTD 2015 – \$0.52, basic and diluted) in YTD 2016. The adjusted earnings per share for YTD 2016 was \$0.52 (YTD 2015 – \$0.52), which removes the net impact of \$6.1 million resulting from bargain purchase gain, termination of management contracts and transaction costs associated for the YTD 2016 total comprehensive income.
- During YTD 2016, the Company generated distributable income of \$28.7 million (YTD 2015 – \$22.2 million) resulting in a payout ratio of 94.9% (YTD 2015 – 98.8%) and declared dividends to common shareholders of \$27.3 million (YTD 2015 – \$22.0 million).

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

Analysis of Financial Information for the Period

Distributable income

	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2016	2015	2016	2015	2015
Total comprehensive income	\$ 12,403	\$ 6,160	\$ 32,922	\$ 21,116	\$ 28,021
Less: amortization of lender fees	(1,814)	(1,183)	(3,906)	(3,890)	(4,966)
Add: lender fees received	2,240	1,126	4,361	3,330	4,280
Add: amortization of financing costs, credit facility	278	57	495	165	221
Add: amortization of financing costs, debentures	172	97	352	287	277
Add: accretion expense, debentures	37	29	94	85	113
Add: net operating (gain) loss from FPHFS	(53)	(25)	(20)	87	114
Add: unrealized fair value adjustments on FPHFS	575	–	575	150	524
Add: provision for mortgage investments loss	–	900	–	900	900
Add: termination of management contracts	–	–	7,438	–	–
Add: transaction costs relating to the Amalgamation	–	–	1,573	–	–
Less: bargain purchase gain	–	–	(15,154)	–	–
Distributable income¹	13,838	7,161	28,730	22,230	29,484
Less: dividends on common shares	(12,677)	(7,311)	(27,265)	(21,956)	(29,253)
Under (over) distribution	\$ 1,161	\$ (150)	\$ 1,465	\$ 274	\$ 231
Distributable income per share	\$ 0.19	\$ 0.18	\$ 0.55	\$ 0.55	\$ 0.73

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

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements and its ability to generate recurring cash flows for dividends. As at September 30, 2016, the Company has a leverage ratio of 37.3% which is in line with expected leverage ratio of approximately 35%-40% in order to achieve targeted annual earnings per share of \$0.72.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

Statements of income and comprehensive income

	Three months ended		% Change	Nine months ended		% Change
	September 30,			September 30,		
	2016	2015		2016	2015	
Net interest income ¹	\$ 19,119	\$ 10,161	88.2%	\$ 40,839	\$ 32,189	26.9%
Expenses	(2,695)	(3,145)	14.3%	(7,548)	(7,867)	4.1%
Income from operations ¹	16,424	7,016	134.1%	33,291	24,322	36.9%
Net operating gain (loss) from FPHFS	53	25	(107.2%)	20	(87)	123.2%
Fair value adjustment of FPHFS	(575)	–	(100.0%)	(575)	(150)	(283.3%)
Termination of management contracts	–	–	–	(7,438)	–	(100.0%)
Transaction costs relating to the Amalgamation	–	–	–	(1,573)	–	(100.0%)
Bargain purchase gain	–	–	–	15,154	–	100.0%
Financing costs:						
Interest on credit facility	(2,321)	(208)	(1,018.5%)	(3,448)	(965)	(257.1%)
Interest on convertible debentures	(1,178)	(673)	12.5%	(2,509)	(2,005)	(25.2%)
Total comprehensive income (basic)	\$ 12,403	\$ 6,160	101.3%	\$ 32,922	\$ 21,116	55.9%
Total comprehensive income (diluted)	\$ 13,581	\$ 6,833	98.8%	\$ 35,431	\$ 23,121	53.2%
Adjusted total comprehensive income (basic)¹	\$ 12,403	\$ 6,160	101.3%	\$ 26,779	\$ 23,121	15.8%
Adjusted total comprehensive income (diluted)¹	\$ 13,581	\$ 6,833	98.8%	\$ 29,288	\$ 23,121	26.7%
Earnings per share (basic)	\$ 0.17	\$ 0.15		\$ 0.64	\$ 0.52	
Earnings per share (diluted)	\$ 0.17	\$ 0.15		\$ 0.63	\$ 0.52	
Adjusted earnings per share (basic and diluted)¹	\$ 0.17	\$ 0.15		\$ 0.52	\$ 0.52	

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

Net interest income ²

For Q3 2016 and YTD 2016, the Company earned net interest income of \$19.1 million and \$40.8 million (Q3 2015 – \$10.2 million; YTD 2015 – \$32.2 million). Net interest income includes the following:

(a) Interest income

During Q3 2016 and YTD 2016, the Company earned \$17.3 million and \$36.7 million (Q3 2015 – \$9.0 million; YTD 2015 – \$28.3 million) in interest income on the net mortgage investments. For Q3 2016 and YTD 2016, the increase is mainly attributable to the Amalgamation, as Q3 2016 is the first full quarter in operations after the Amalgamation, offset by a decrease in the weighted average interest rate of 7.5% and 8.2% (Q3 2015 and YTD 2015 – 9.1%) which is in-line with management's expectations.

(b) Lender fee income

During Q3 2016 and YTD 2016, the Company received non-refundable lender fees of \$2.2 million and \$4.4 million (Q3 2015 – \$1.1 million; YTD 2015 – \$3.3 million), or a weighted average lender fee of 1.0% and 1.2% during Q3 2016 and YTD 2016 (Q3 2015 – 1.3%; YTD 2015 – 1.4%). Lender fees are amortized using the effective interest rate method

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

over the expected life of the mortgage investments to lender fee income but are received upfront. For Q3 2016 and YTD 2016, lender fees of \$1.8 million and \$3.9 million (Q3 2015 – \$1.2 million; YTD 2015 – \$3.9 million) were amortized to lender fee income. Lender fees continue to be a significant component of income as a result of mortgage investment turnover. The Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders.

Expenses

For Q3 2016 and YTD 2016, the expense ratio was 1.0% (Q3 2015 – 1.9%; YTD 2015 – 2.0%), including a fixed expense ratio of 1.0% and 0.8% (Q3 2015 – 1.4%; YTD 2015 – 1.5%). The decrease in expense ratio is mainly driven by higher total assets base in YTD 2016 compared to YTD 2015. Concurrent with the Amalgamation, the Company has entered into a new management agreement with the Manager, which has a reduction in management fees from 1.20% to 0.85% and removal of performance fees. As a result, the Company expects to see a lower expense ratio going forward.

Management fees

(a) Management fees

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

The previous management agreement between TMIC and the Manager was terminated on the Effective Date and the old management fee was 1.20% per annum of the gross assets of TMIC, plus applicable taxes.

For Q3 2016 and YTD 2016, the Company incurred management fees of \$2.3 million and \$5.4 million (Q3 2015 – \$1.4 million; YTD 2015 – \$4.4 million). The increase is directly related to the increase in gross assets averaging \$703.9 million in YTD 2016, compared to \$439.3 million in YTD 2015.

Servicing fees

(a) Servicing fees

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

For Q3 2016 and YTD 2016, the Company incurred \$0.1 million in servicing fees.

(b) Performance fees

Under the management agreement prior to the Amalgamation, the Manager was entitled to a performance fee from TMIC equal to 20%, plus applicable taxes, of the net earnings available for distribution to shareholders in excess of the hurdle rate (the "Hurdle Rate"), which is defined as the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points. Under the new management agreement, the Manager does not receive any performance fees.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

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

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

General and administrative

For Q3 2016 and YTD 2016, the Company incurred general and administrative expenses of \$271 and \$797 (Q3 2015 – \$253; YTD 2015 – \$740). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage investments portfolio. The increase in general and administrative expenses relative to YTD 2015 is attributed to increased professional fees. The operating expense ratio for Q3 2016 and YTD 2016 were 0.1% (Q3 2015 and YTD 2015 – 0.2%).

Net operating gain (loss) from foreclosed properties held for sale

The Company consolidates the operating activities of the FPHFS. The net operating gain from FPHFS for Q3 2016 and YTD 2016 was \$53 and \$20 ((Q3 2015 – \$25; YTD 2015 – \$(87)).

Interest on credit facility

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 2016 and YTD 2016 relating to the credit facility were \$2.3 million and \$3.4 million (Q3 2015 – \$208; YTD 2015 – \$964). The increase over the comparable 2015 periods is directly related to the increase in credit facility utilization in 2016. The weighted average credit utilization, including credit facility balance assumed as part of the Amalgamation, in YTD 2016 was \$105.8 million compared to \$24.0 million during YTD 2015.

In connection with the Amalgamation, the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility. The interest rates incurred on the new credit facility have decreased from TMIC's previous credit facility. Interest rates have been lowered to either the prime rate of interest plus 1.25% per annum (December 31, 2015 – 1.50%) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2015 – 2.50%).

Interest on convertible debentures

The Company has \$34.5 million of 6.35% convertible unsecured subordinated debentures outstanding as at September 30, 2016. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method.

On July 29, 2016, the Company issued an unsecured convertible debenture bearing interest at a fixed rate of 5.4% for gross proceeds of \$40 million. The unsecured convertible debentures will mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31. On August 3, 2016, an additional \$5.8 million of the debentures were issued from an over-allotment option.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

For Q3 2016 and YTD 2016, interest on the debentures of \$0.7 million and \$1.3 million (Q3 2015 – \$0.7 million; YTD 2015 – \$1.3 million), is made up of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest on the convertible debentures	\$ 969	\$ 547	\$ 2,063	\$ 1,633
Amortization of issue costs	172	97	352	287
Accretion of the convertible debentures	37	29	94	85
	\$ 1,178	\$ 673	\$ 2,509	\$ 2,005

Earnings per share

For Q3 2016 and YTD 2016, basic earnings per share were \$0.17 and \$0.64 (Q3 2015 – \$0.15; YTD 2015 – \$0.52); diluted earnings per share were \$0.17 and \$0.63 (Q3 2015 – \$0.15; YTD 2015 – \$0.52) and the adjusted basic and diluted earnings per share were \$0.17 and \$0.52 (Q3 2015 – \$0.15; YTD 2015 – \$0.52) after removing the effects of one-time amounts for the Amalgamation which includes termination of management contracts, transaction costs and bargain purchase gain.

Statements of Financial Position

On the Effective Date, all of TSMIC's mortgage investments were amalgamated with the mortgage investments of the Company. Of the 62 TSMIC mortgage investments, 56 of the mortgage investments had been co-invested with the Company prior to Amalgamation.

Net mortgage investments

The balance of net mortgage investments is as follows:

	September 30, 2016	December 31, 2015
Mortgage investments, including mortgage syndications	\$ 1,548,525	\$ 750,704
Mortgage syndication liabilities	(523,763)	(310,049)
	1,024,762	440,655
Interest receivable	(12,501)	(6,535)
Unamortized lender fees	7,127	4,204
Allowance for mortgage investments loss	1,150	1,150
Net mortgage investments	\$ 1,020,538	\$ 439,474

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

	Three months ended		Nine months ended		Year ended
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015	December 2015
Net mortgage investments statistics and ratios¹					
Total number of net mortgage investments	121	110	121	110	100
Average net mortgage investment	\$ 8,434	\$ 4,039	\$ 8,434	\$ 4,039	\$ 4,395
Average net mortgage investment portfolio	\$ 955,974	\$ 394,108	\$ 655,170	\$ 409,328	\$ 415,840
Weighted average interest rate for the period	7.5%	9.1%	8.2%	9.2%	9.1%
Weighted average lender fees	1.0%	1.3%	1.2%	1.4%	1.2%
Turnover ratio	7.4%	10.7%	36.8%	48.0%	69.2%
Weighted average term (years)	2.3	2.2	2.3	2.2	2.1
Remaining term to maturity (years)	1.2	1.4	1.2	1.4	1.2
Net mortgage investments secured by cash-flowing properties	85.7%	89.6%	85.7%	89.6%	87.2%
Weighted average loan-to-value	66.4%	72.3%	66.4%	72.3%	70.4%

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

Portfolio allocation

The Company's net mortgage investments, excluding foreclosed properties held for sale, were allocated across the following categories:

(a) Security Position

	September 30, 2016		December 31, 2015	
	# of Net Investments	# of Net Investments	# of Net Investments	# of Net Investments
First mortgages	96	82.3%	82	78.0%
Non-first mortgages	25	17.7%	18	22.0%
	121	100.0%	100	100.0%

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

(b) Region

	September 30, 2016		December 31, 2015	
	# of Net Investments	# of Net Investments	# of Net Investments	# of Net Investments
ON	57	48.7%	36	35.1%
QC	19	15.3%	22	19.9%
BC	14	13.4%	12	9.4%
AB	9	8.1%	7	5.7%
SK	10	6.6%	9	15.3%
OT	4	4.0%	4	9.5%
NS	2	2.1%	2	0.9%
MB	6	1.8%	8	4.2%
	121	100.0%	100	100.0%

(c) Maturity

	September 30, 2016		December 31, 2015	
	# of Net Investments	# of Net Investments	# of Net Investments	# of Net Investments
Maturing 2016, balance of year	24	20.4%	41	45.4%
Maturing 2017	52	35.0%	49	35.8%
Maturing 2018	33	28.3%	10	18.8%
Maturing 2019	10	11.9%	–	–
Maturing 2020 and thereafter	2	4.4%	–	–
	121	100.0%	100	100.0%

(d) Asset Type

	September 30, 2016		December 31, 2015	
	# of Net Investments	# of Net Investments	# of Net Investments	# of Net Investments
Multi-residential	72	52.5%	59	60.7%
Retail	10	15.2%	12	17.9%
Hotels	5	8.1%	2	1.3%
Retirement	5	7.0%	5	2.2%
Office	6	5.3%	8	8.9%
Unimproved land	8	5.1%	6	5.7%
Other-residential	3	3.1%	3	0.7%
Industrial	6	2.0%	3	0.9%
Other	2	0.8%	–	–
Self-storage	2	0.6%	1	0.8%
Single-family residential	2	0.3%	1	0.9%
	121	100.0%	100	100.0%

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

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 \$523.8 million (December 31, 2015 – \$310.0 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time, and not necessarily indicative of a future trend.

Foreclosed properties held for sale

The fair value of the remaining foreclosed properties held for sale as at September 30, 2016 is \$11.5 million (December 31, 2015 – \$12.8 million). The Company has engaged third party managers to operate the properties while they are held for sale.

During YTD 2016, the Company sold five residential units (YTD 2015 – three) from one of the foreclosed properties for net proceeds of \$720 (YTD 2015 – \$550). During Q3 2016 and YTD 2016, the Company recorded an unrealized fair value adjustment of \$575 on one foreclosed property (YTD 2015 – \$150).

Allowance for mortgage investments loss

As at September 30, 2016, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. No additional collective impairment was recognized during Q3 2016 and YTD 2016 (Q3 2015 and YTD 2015 – nil).

As at September 30, 2016, the Company has recognized a specific impairment allowance of \$900 (December 31, 2015 – \$900) and a collective impairment allowance of \$250 (December 31, 2015 – \$250)

Net working capital

Net working capital increased by \$3.0 million to \$4.8 million at September 30, 2016 from \$1.8 million at December 31, 2015. The increase is mainly due to the repayment of net mortgage investments in September 2016.

Credit facility

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement effective June 30, 2016 and will mature in May 2018. The new credit facility has an available credit limit of \$350.0 million (December 31, 2015- \$60.0 million) with interest at either the prime rate of interest plus 1.25% per annum (December 31, 2015- prime rate of interest plus 1.50% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2015- 2.50%). The new credit facility has a standby fee of 0.5625% per annum (December 31, 2015- 0.55%) on the unutilized credit facility balance. The credit facility also includes an accordion feature that allows the available limit to be increased by up to a further \$50.0 million, subject to certain conditions. The Company's maximum credit facility limit is subject to a borrowing base as defined in the new amended and restated credit agreement.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

The Company incurred financing costs of \$2.1 million relating to the new credit facility, which includes upfront fees, amalgamation fees and legal costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q3 2016 and YTD 2016, included in financing costs is interest on the credit facility of \$2.0 million and \$3.0 million (Q3 2015 – \$151; YTD 2015 – \$800) and financing costs amortization of \$278 and \$495 (Q3 2015 – \$57; YTD 2015 – \$164).

Convertible debentures

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

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

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

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

(b) On July 29, 2016, the Company completed a public offering of \$40.0 million, plus an overallotment option of \$5.8 million on August 5, 2016, of 5.40%, convertible unsecured subordinated debentures for net proceeds of \$43.6 million (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 with interest payable semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

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

Shareholders' equity

(a) Common shares

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

As a result of the Amalgamation, 40,523,728 of the Company's common shares were issued to shareholders of TMIC at a ratio of one-to-one; and 32,551,941 of the Company's common shares were issued to shareholders of TSMIC at an exchange ratio of 1.035. The Company also issued 782,830 common shares to the Manager in connection with the termination of management contracts with TMIC. As a result, the number of common shares outstanding as at September 30, 2016, are 73,858,499.

(b) Dividends

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. During the six months ended June 30, 2016, TMIC declared dividends of \$14.6 million, or \$0.36 per share, to the holders of TMIC common shares (Six month ended June 30, 2015 – \$14.6 million, \$0.360 per share). During Q3 2016, the Company declared dividends of \$12.7 million, or \$0.171 per share, to the holders of TF common shares. As at September 30, 2016, \$4.2 million in aggregate dividends (December 31, 2015 – \$2.4 million) was payable to the holders of common shares of TF by the Company. Subsequent to September 30, 2016, the Board of Directors of the Company declared dividends of \$0.057 per common share to be paid on November 15, 2016 to the common shareholders of record on October 31, 2016.

(c) Dividend reinvestment plan

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

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provides eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued 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 2016 and YTD 2016, 78,314 and 265,878 common shares were purchased on the open market during Q3 2016 and YTD 2016 (Q3 2015 – 123,733; YTD 2015 – 291,187).

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

(d) Non-executive director deferred share unit plan

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

Commencing July 1, 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"). DSUs that are held by directors entitle the directors to also accumulate additional DSUs equal to the monthly cash dividends, determined based on the Fair Market Value of the common shares on the dividend payment date.

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

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

For the Q3 2016, \$37 in quarterly compensation was granted in DSUs, which will be issued subsequent to Q3 2016 at the Fair Market Value.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for Q3 2016 and YTD 2016 was \$14.4 million and \$29.3 million (Q3 2015 – \$7.7 million; YTD 2015 – \$22.4 million). The decrease is mainly due to changes in non-cash operating items.

Cash from financing activities

Uses of cash from financing activities for Q3 2016 and YTD 2016 consisted of the Company's net advances on the credit facility of \$72.7 million and \$72.3 million (Q3 2015 – \$52.8 million; YTD 2015 – \$50.0 million). The company received \$43.5 million from the issuance of convertible debentures after issue costs. The Company paid interest on the debentures and credit facility of \$3.0 million and \$7.1 million (Q3 2015 – \$1.2 million; YTD 2015 – \$3.1 million) and common share dividends of \$12.5 million and \$27.1 million (Q3 2015 – \$7.3 million; YTD 2015 – \$22.0 million). The Company did not repurchase any shares for cancellation under the normal course issuer bid of (Q3 2015 – \$929; YTD 2015 – \$1.2 million). The net cash provided by financing activities for Q3 2016 and YTD 2016 was \$100.7 million and \$81.6 million (Q3 2015 – \$43.3 million; YTD 2015 – \$23.7 million).

Cash used in investing activities

Net cash used in investing activities in Q3 2016 and YTD 2016 was \$126.6 million and \$110.8 million (Q3 2015 – \$50.9 million; YTD 2015 – \$46.5 million) and consisted of the funding of net mortgage investments of \$194.9 million and \$331.6 million, respectively, (Q3 2015 – \$94.5 million; YTD 2015 – \$247.1 million), offset by the repayments of net mortgage investments of \$68.3

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

million and \$220.1 million respectively, (Q3 2015 – \$43.5 million; YTD 2015 – \$200.1 million), proceeds from disposal of FPHFS of \$720 for YTD 2016 (Q3 2015 – \$189; YTD 2015 – \$550) offset by capital improvement costs of FPHFS of \$60 during YTD 2015.

QUARTERLY FINANCIAL INFORMATION

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

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Net interest income ¹	\$ 19,119	\$ 10,922	\$ 10,798	\$ 10,814	\$ 10,161	\$ 11,532	\$ 10,496	\$ 9,774
Expenses	(2,695)	(2,418)	(2,436)	(2,387)	(3,145)	(2,481)	(2,239)	(2,336)
Income from operations ¹	16,424	8,504	8,362	8,427	7,016	9,051	8,257	7,438
Net operating gain (loss) from FPHFS	53	(39)	5	(28)	25	(30)	(82)	(58)
Fair value adjustment of FPHFS	(575)	–	–	(374)	–	(150)	–	(800)
Non-recurring transaction costs relating to the Amalgamation	–	6,143	–	–	–	–	–	–
Financing costs:								
Interest on credit facility	(2,321)	(600)	(527)	(554)	(208)	(477)	(281)	(87)
Interest on convertible debentures	(1,178)	(667)	(664)	(566)	(673)	(672)	(660)	(681)
Total financing costs	(3,499)	(1,267)	(1,191)	(1,120)	(881)	(1,149)	(941)	(768)
Total comprehensive income (basic and diluted)	\$ 12,403	\$ 13,341	\$ 7,176	\$ 6,905	\$ 6,160	\$ 7,722	\$ 7,234	\$ 5,812
Adjusted earnings per share (basic and diluted)¹	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.15	\$ 0.19	\$ 0.18	\$ 0.14
Earnings per share (basic and diluted)	\$ 0.17	\$ 0.33	\$ 0.18	\$ 0.17	\$ 0.15	\$ 0.19	\$ 0.18	\$ 0.14
Adjusted earnings per share (basic and diluted)¹	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.17	\$ 0.15	\$ 0.19	\$ 0.18	\$ 0.14

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

The variations in total 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, for the period of Q2 2015 to Q4 2014, 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 investment loan resulting in fluctuations in quarterly total comprehensive income;
- (iv) The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs; and
- (v) Q2 2016 includes one-time amounts relating to the Amalgamation which includes termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

RELATED PARTY TRANSACTIONS

As at September 30, 2016, due to Manager includes management and servicing fees payable of \$827. As at December 31, 2015, due to Manager included \$2.4 million management and performance fees payable.

As at September 30, 2016, included in other assets is \$1.3 million (December 31, 2015 – \$2.2 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, 2016, included in accounts payable and accrued expenses is \$3.4 million (December 31, 2015 – nil) relating to a payable to TMSI which was paid in the beginning of October 2016.

As at September 30, 2016, the Company has four mortgage investments, which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage with a total gross commitment of \$84.1 million (December 31, 2015 – \$84.1 million). The Company's share of the commitment is \$29.1 million (December 31, 2015 – \$14.9 million), of which \$6.3 million (December 31, 2015 – \$1.7 million) has been funded as at September 30, 2016.
- A mortgage investment with a total gross commitment of \$15.6 million (December 31, 2015 – \$13.3 million). The Company's share of the commitment is \$6.0 million (December 31, 2015 – \$5.1 million), of which \$3.6 million (December 31, 2015 – \$3.6 million) has been funded as at September 30, 2016.
- A mortgage investment with a total gross commitment of \$6.0 million (December 31, 2015 – nil), where one independent director of the Company is an officer of an indirect investor in the borrower. The Company's share of the commitment is \$5.1 million (December 31, 2015 – nil), of which \$2.0 million (December 31, 2015 – nil) has been funded as at September 30, 2016.
- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2015 – nil). The Company's share of the commitment is \$1.9 million (December 31, 2015 – nil), of which \$1.9 million (December 31, 2015 – nil) has been funded as at September 30, 2016.

As at September 30, 2016, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in nine gross mortgage investments totaling \$236.2 million (December 31, 2015 – \$702.6 million). As at September 30, 2016, the Company's share in these gross mortgage investments is \$102.1 million (December 31, 2015 – \$286.3 million). Included in these amounts are two (December 31, 2015 – one) net mortgage investments of \$17.7 million (December 31, 2015 – \$1.3 million) loaned to a limited partnership in which T4Q is invested.

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

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 loans. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the unaudited condensed consolidated interim financial statements, the Manager has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making those estimates and judgments in the unaudited condensed consolidated interim financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the unaudited condensed consolidated interim financial statements are as follows:

Mortgage investments

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

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

Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Manager will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

Information about the assumptions made in measuring fair value is included in notes 4 and 14 to the consolidated financial statements for the year ended December 31, 2015.

OUTSTANDING SHARE DATA

As at November 8, 2016, the Company's authorized capital consists of an unlimited number of common shares, of which 73,858,499 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 the credit facility. The Company has a borrowing ability of \$350 million through its credit facility and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at September 30, 2016, the Company is in compliance with its credit facility covenants and expects to remain in compliance going forward.

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

The following are the contractual maturities of financial liabilities as at September 30, 2016, including expected interest payments:

	Carrying Values	Contractual cash flows	Within a year	Following year	3-5 years
Accounts payable and accrued expenses	\$ 4,553	\$ 4,553	\$ 4,553	\$ -	\$ -
Dividends payable	4,210	4,210	4,210	-	-
Due to Manager	827	827	827	-	-
Mortgage funding holdbacks	87	87	87	-	-
Prepaid mortgage interest	976	976	976	-	-
Credit facility ¹	307,696	327,942	12,154	315,788	-
Convertible debentures	76,518	97,733	2,191	2,191	93,352
Total liabilities	\$ 394,867	\$ 436,328	\$ 24,998	\$ 317,979	\$ 93,352
Unadvanced gross mortgage commitments ²	230,023	230,023	230,023	-	-
Total contractual liabilities	\$ 624,890	\$ 666,351	\$ 255,021	\$ 317,979	\$ 93,352

1 Includes interest based upon the current prime interest rate plus 1.25% on the credit facility, assuming the outstanding balance is not repaid until its maturity on May 6, 2018.

2 Unadvanced mortgage commitments include syndication commitments from third party investors totaling \$79.7 million.

In connection with the Amalgamation, the Company increased its credit facility to \$350 million (December 31, 2015 – \$60.0 million). As at September 30, 2016, the Company had a cash position of \$0.2 million (December 31, 2015 – \$140) and an unutilized credit facility of \$42.3 million (December 31, 2015 – \$6.2 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments, \$79.7 million (December 31, 2015 – \$75.3 million) is related 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 and mortgage 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 investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of convertible debentures and mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. The fair value of the convertible debentures is based on the market trading price of convertible debentures at the reporting date.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties that may affect the Company's future performance and its ability to execute on its investment objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while other risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage investments at rates consistent with rates historically achieved, not having adequate mortgage investment opportunities presented to us, and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

For a full discussion of the risks and uncertainties affecting the Company, please also refer to the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2015.

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company evaluated, or caused to be evaluated under their direct supervision, the design of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) at September 30, 2016 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, 2016 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 nine months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

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

ADDITIONAL INFORMATION

Phone

Calling the Company at 1-844-304-9967, Carrie Morris, Managing Director Capital Markets & Corporate Communications.

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 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:

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25 Price Street
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