

Management's Discussion and Analysis

Timbercreek Senior Mortgage Investment Corporation

For the year ended December 31, 2014

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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 Senior Mortgage Investment Corporation (the "Company"). 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 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 February 24, 2015. 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 Manager's website at www.timbercreekseniormic.com. Additional information on the Company, including its AIF, can be found on the SEDAR website at www.sedar.com.

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BUSINESS OVERVIEW

Timbercreek Senior Mortgage Investment Corporation (the "Company") is incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011. On September 13, 2013 (the "Effective Date"), in connection with the Transition, as explained below, the Company filed articles of amendment as of the Effective Date, to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing redeemable Class A, Class B, Class I, Class J and voting shares, and provide for the creation of a new class of common shares for which all existing classes of redeemable shares were exchanged. On November 29, 2013 (the "Exchange Date"), all issued and outstanding Class A, Class B, Class I and Class J shares were exchanged into common shares.

The Company invests in first mortgage investments selected and determined to be high quality by the Manager, and intends to qualify as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada).

The fundamental investment objectives of the Company are to (i) preserve shareholder capital of the Company and (ii) provide shareholders with a stable stream of monthly dividends. The Company intends to meet its investment objectives by investing in a diversified portfolio of mortgage investments, consisting primarily of conventional mortgage investments secured directly by multi-residential, retirement, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

TRANSITION TO PUBLIC COMPANY REGIME

On September 12, 2013, the Company received shareholder approval for the Company's transition (the "Transition") from the Canadian securities regulatory regime for investment funds to the regulatory regime for non-investment fund reporting issuers (the "Public Company Regime").

Beginning on the Effective Date, the Company is subject to, and files all continuous disclosure materials in compliance with, the Public Company Regime requirements, which includes preparation of its financial statements in accordance with International Financial Reporting Standards ("IFRS"), along with an MD&A.

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding redeemable shares of each class (the "Special Redemption"). The Company redeemed requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemptions payable of \$51.5 million were paid on November 27, 2013. On the Exchange Date, the Company exchanged all of the outstanding 30,825,108 Class A shares, 186,626 Class B shares, 424,700 Class I shares and 86,250 Class J shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on the Exchange Date, continuing under the symbol 'MTG', and the Class A shares ceased to trade after the close of market on November 28, 2013.

Also as of the Effective Date, the Company entered into a new management agreement with the Manager and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services of the Company's mortgage investments.

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In connection with the Transition, the Company incurred total costs of \$4.1 million which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. The Manager elected to assume responsibility for \$0.3 million of costs relating to the Transition.

BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the year ended December 31, 2014 (the "Year"). This MD&A should be read in conjunction with the consolidated financial statements for the years ended December 31, 2014 and 2013 which are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

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 System for Electronic Document Analysis and Retrieval ("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 ability of the Company to earn and distribute cash dividends to shareholders and to evaluate the Company's performance. These non-IFRS measures should not be construed as alternatives to net income (loss) and comprehensive income (loss) or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Expense ratio – represents total expenses (excluding financing costs, transition related costs and provision for mortgage investments loss) for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- 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 – represents the total net mortgage investments divided by the total number of mortgage investments at the reporting date;
- Average net mortgage investment portfolio – represents the monthly average of the net mortgage investments portfolio over the stated period;
- Weighted average interest rate – represents the weighted average of interest rates (not including lender fees) on the net mortgage investments at the reporting date;

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- 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 net 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;
- 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;
- Leverage – represents the total credit facility balance divided by total assets less any amounts that are reflected as mortgage syndication liabilities;
- Targeted dividend yield – represents the average 2-Year Government of Canada Bond Yield plus 350 basis points;
- Actual dividend yield – represents the total per share dividend for the stated period for Class A shares and common shares divided by the trading close price for the stated period;
- Adjusted net income (loss) and comprehensive income (loss) – represents net income (loss) and comprehensive income (loss) for the stated period excluding Transition related costs, issuance costs of redeemable shares and dividends to holders of redeemable shares;
- Adjusted earnings per share – represents adjusted net income (loss) and comprehensive income (loss) divided by the weighted average outstanding shares for the stated period;
- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investments for the stated period; and,
- Payout ratio – represents total dividends paid and declared for payment to the holders of redeemable shares and common shares during the stated period, divided by distributable income for the stated period.

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RECENT DEVELOPMENTS AND OUTLOOK

The Company had a very active year in 2014 and was successful in maintaining a well-diversified portfolio of first mortgage loans primarily secured by income-producing real estate. Portfolio turnover remained strong with \$242 million repaid in 2014 equating to 62% turnover in the portfolio. In spite of the extra-ordinary repayments experienced in the second quarter, the Company funded \$271 million throughout 2014 which resulted in portfolio growth of 7% year-over-year. Given the performance of the portfolio, we also weren't required to recognize any specific impairments in 2014, demonstrating the quality of the mortgage investments.

Despite higher levels of competition and downward pressures on bond yields, the Company continued to source quality mortgage investment opportunities that achieved a weighted average interest rate on the portfolio of 6.2%. While this weighted average interest rate was slightly lower than the end of 2013, this was partially offset by increased credit facility utilization and lender fees from high turnover.

Strong investment activity in the last two quarters also allowed the Company to fund \$141 million from the credit facility which increases our utilization. While the under-utilization of the facility in the first two quarters resulted in a modest over distribution of income, income generated in the third and fourth quarter exceeded the respective quarterly dividend obligations and brought the annual payout ratio closer to our target of 100%. To mitigate against the impacts of higher than expected turnover, the Company increased the size of the credit facility to \$190 million in December. The objective will be to increase leverage to better manage lumpy investment activity throughout the year and allow the Company to consistently maintain its target utilization level.

The Company has maintained minimal exposure to the Alberta real estate market in recent quarters due to the Manager's concerns around aggressive valuations and competition. As at December 31, the Company had only 4% of the portfolio invested in Alberta. As a result, the Company does not feel that it is directly exposed in any material way to downward pressure on oil prices. However, under the current conditions and the abrupt exit from conventional lenders, the Alberta market has become more attractive. The Company will be actively seeking opportunities to capitalize on the lack of capital available in this market to generate strong risk-adjusted returns.

Overall, performance in 2014 was strong and the Company is well positioned for a successful 2015. Additional capacity on the credit facility will allow the Company to increase utilization throughout the year and the Manager believes it will be able to continue to source investment opportunities at interest rates that will allow the Company to continue to meet its dividend obligation going forward.

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FINANCIAL HIGHLIGHTS

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

As at	December 31, 2014	December 31, 2013	December 31, 2012
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	\$ 483,209	\$ 515,797	\$ 373,929
Total assets	\$ 484,288	\$ 519,007	\$ 376,067
Credit facility	\$ 141,233	\$ 108,746	\$ 33,602
Total liabilities	\$ 195,743	\$ 230,245	\$ 80,010
CAPITAL STRUCTURE			
Net assets attributable to holders of redeemable shares	\$ –	\$ –	\$ 296,057
Shareholders' equity	\$ 288,544	\$ 288,762	\$ –
Credit facility limit	\$ 190,000	\$ 130,000	\$ 130,000
Credit facility balance at year end	\$ 142,076	\$ 108,971	\$ 37,500
Leverage ¹	32.9%	27.0%	11.1%
COMMON SHARE INFORMATION			
Number of common shares outstanding	31,556,608	31,556,608	–
Number of Class A redeemable shares outstanding	–	–	31,029,785
Number of Class I redeemable shares outstanding	–	–	329,700
Number of Class J redeemable shares outstanding	–	–	331,000
Closing trading price	\$ 8.71	\$ 8.54	\$ 9.80
Market capitalization	\$ 274,858	\$ 269,493	\$ 304,092

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

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Operating Results Highlights

	Three months ended December 31,		Year ended December 31,		
	2014	2013	2014	2013	2012
Net interest income	\$ 7,174	\$ 7,325	\$ 28,159	\$ 28,234	\$ 12,941
Income from operations	\$ 5,900	\$ 5,889	\$ 23,211	\$ 18,578	\$ 9,165
Net income (loss) and comprehensive income (loss)	\$ 4,625	\$ 2,986	\$ 18,717	\$ (6,453)	\$ (18,656)
Earnings per share (basic and diluted) ¹	\$ 0.15	\$ 0.14	\$ 0.59	\$ 0.42	n/a
Adjusted net income (loss) and comprehensive income (loss) ²	\$ 4,625	\$ 4,979	\$ 18,717	\$ 19,593	\$ 8,170
Adjusted earnings per share (basic and diluted) ²	\$ 0.15	\$ 0.14	\$ 0.59	\$ 0.53	\$ 0.34
Dividends to shareholders	\$ 4,733	\$ 5,007	\$ 18,934	\$ 22,030	\$ 13,391
Cash flow from operating activities	\$ 6,678	\$ 4,282	\$ 20,927	\$ 19,195	\$ 10,920
Distributable income	\$ 4,573	\$ 5,579	\$ 18,362	\$ 21,082	\$ 10,828
Distributable income per share (basic and diluted) ¹	\$ 0.14	\$ 0.16	\$ 0.58	\$ 0.57	\$ 0.44
Targeted dividend yield ²	4.52%	4.61%	4.55%	4.61%	4.61%
Actual dividend yield ²	6.83%	6.97%	6.89%	7.03%	5.61%
Payout ratio ³	103.5%	89.7%	103.1%	104.5%	123.7%
Dividends per share:					
Class A	\$ –	\$ 0.050	\$ –	\$ 0.500	\$ 0.550
Class B	\$ –	\$ 0.054	\$ –	\$ 0.540	\$ –
Class I	\$ –	\$ 0.054	\$ –	\$ 0.540	\$ 0.324
Class J	\$ –	\$ 0.052	\$ –	\$ 0.520	\$ 0.364
Common	\$ 0.150	\$ 0.100	\$ 0.600	\$ 0.100	\$ –
NET MORTGAGE INVESTMENTS INFORMATION²					
Net mortgage investments	\$ 431,296	\$ 401,456	\$ 431,296	\$ 401,456	\$ 332,999
Total number of net mortgage investments	62	62	62	62	32
Average net mortgage investment	\$ 6,956	\$ 6,475	\$ 6,956	\$ 6,475	\$ 10,406
Weighted average interest rate	6.2%	6.5%	6.2%	6.5%	6.7%
Weighted average lender fee ⁴	0.5%	0.7%	0.6%	0.9%	0.7%
Turnover ratio	13.0%	28.3%	61.5%	84.4%	52.6%

1 The Company has not disclosed earnings (loss) per share for the year ended December 31, 2012 as the Company did not have equity instruments, as defined in IAS 33, Earnings per Share as the redeemable shares were classified as a financial liability in the statements of financial position.

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

3 2014 over distribution mainly due to a reduced weighted average interest rate coupled with lower than planned leverage utilization caused by high turnover. See "Distributable Income."

4 The Company has revised weighted average lender fee ratios for prior periods based on updated definition included in non-IFRS measures section.

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For the three months ended December 31, 2014 ("Q4 2014") and December 31, 2013 ("Q4 2013")

- The Company advanced five new net mortgage investments (Q4 2013 – 13) totalling \$50.8 million (Q4 2013 – \$124.3 million), had additional advances on existing net mortgage investments totalling \$17.6 million (Q4 2013 – \$0.7 million) and received full repayments on eight net mortgage investments (Q4 2013 – eight) and partial pay downs totalling \$54.8 million (Q4 2013 – \$116.3 million), resulting in net mortgage investments of \$431.3 million as at December 31, 2014 (September 30, 2014 – \$417.7 million).
- The Company received non-refundable lender fees of \$0.4 million (Q4 2013 – \$1.1 million) or weighted average lender fees of 0.5% (Q4 2013 – 0.7%). The Company generates lender fees predominantly from fundings of new mortgage investments which were lower in Q4 2014 in relation to Q4 2013 predominantly from being near capacity on its credit facility prior to the credit facility limit increase.
- Net interest income earned by the Company was \$7.2 million (Q4 2013 – \$7.3 million), a decrease of \$0.1 million, or 2.1%, from the same period last year. The slight decrease over the same period last year is primarily a result of lower weighted average interest rate of 6.2% (Q4 2013 – 6.5%).
- The Company generated income from operations of \$5.9 million (Q4 2013 – \$5.9 million). Although income from operations has remained in-line with Q4 2013, the net interest income in Q4 2014 was lower than Q4 2013 and has been offset by the reduction in expenses.
- The Company declared dividends of \$0.15 per common share for a total of \$4.7 million (Q4 2013 – \$0.10; \$3.2 million). Prior to the Transition, during Q4 2013 the Company paid dividends of \$0.05 per Class A share for a total of \$1.8 million, \$0.054 per Class B share for a total of \$0.01 million, \$0.054 per Class I share for a total of \$0.03 million and \$0.052 per Class J share for a total of \$0.01 million.
- On December 18, 2014, the Company exercised the option to increase the credit facility limit by \$45.0 million to \$190.0 million (December 31, 2013 – \$130.0 million).

For the years ended December 31, 2014 (the "Year") and December 31, 2013 ("2013")

- The Company advanced 32 new net mortgage investments (2013 – 55) totalling \$220.3 million (2013 – \$378.3 million), had additional advances on existing net mortgage investments of \$51.1 million (2013 – \$20.2 million) and received full repayments on 32 net mortgage investments (2013 – 25) and partial pay downs totalling \$241.6 million (2013 – \$330.1 million), resulting in net mortgage investments of \$431.3 million (2013 – \$401.5 million).
- The Company received non-refundable lender fees of \$1.7 million (2013 – \$3.3 million) or weighted average lender fees of 0.6% (2013 – 0.9%). The Company generates lender fees predominantly from fundings of new mortgages which is directly impacted by \$59.3 million of net equity raised in 2013 and higher turnover experienced in 2013.
- Net interest income earned by the Company was \$28.2 million (2013 – \$28.2 million). Even though net interest income is same as prior year, the weighted average interest rates were lower in 2014 than the same period in 2013 resulting in lower interest income which was offset by increased lender fees amortization in 2014.
- The Company generated income from operations of \$23.2 million (2013 – \$18.6 million), an increase of \$4.6 million, from the last year. Although 2014 has generated lower net interest income relative to 2013, it has been offset by the reduction in expenses resulting from no Transition costs and trailer fees.

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- The Company declared dividends of \$0.60 per common share for a total of \$18.9 million (2013 – \$0.10; \$3.2 million). Prior to the Transition, during 2013 the Company paid dividends of \$0.50 per Class A share for a total of \$18.4 million, \$0.54 per Class B share for a total of \$0.1 million, \$0.54 per Class I share for a total of \$0.2 million and \$0.52 per Class J share for a total of \$0.1 million.
- The Board of Directors appointed Andrew Jones as Chief Executive Officer of the Company, effective January 20, 2014, to replace Blair Tamblyn. Blair Tamblyn remains as Chairman of the Board of Directors.
- The Board of Directors appointed David Melo as Chief Financial Officer of the Company, effective March 25, 2014, to replace Ugo Bizzarri. Ugo Bizzarri was added to the Board of Directors as part of the Transition.
- On June 18, 2014, the Company amended and extended the term of its credit facility agreement with its syndicate of lenders to increase the facility limit to \$145.0 million from \$130.0 million with an option to increase the credit limit by another \$45.0 million. On December 18, 2014, the Company exercised the option to increase the credit facility by \$45.0 million to \$190.0 million (December 31, 2013 – \$130.0 million). The amended credit facility matures on June 23, 2016.
- On November 13, 2014, the Company received the approval of the TSX to commence a normal course issuer bid (the "2014 NCIB") to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common shares float on November 11, 2014.

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ANALYSIS OF FINANCIAL INFORMATION FOR THE YEAR

Distributable income

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
Net income (loss) and comprehensive income (loss)	\$ 4,625	\$ 2,986	\$ 18,717	\$ (6,453)
Less: amortization of lender fees	(572)	(663)	(2,859)	(2,330)
Add: one-time Transition related costs	-	139	-	3,871
Add: lender fees received during the year	367	1,105	1,727	3,267
Add: amortization of financing costs	153	157	602	552
Add: issuance cost of redeemable shares	-	4	-	3,301
Add: dividends to holders of redeemable shares	-	1,851	-	18,874
Add: provision for mortgage investments loss	-	-	175	-
Distributable income	4,573	5,579	18,362	21,082
Less: dividends to holders of redeemable shares	-	1,851	-	18,874
Less: dividends to common shareholders	4,733	3,156	18,934	3,156
(Over) under distribution	\$ (160)	\$ 572	\$ (572)	\$ (948)
Distributable income per share (basic and diluted)	\$ 0.14	\$ 0.16	\$ 0.58	\$ 0.57
Payout ratio	103.5%	89.7%	103.1%	104.5%
Turnover ratio	13.0%	28.3%	61.5%	84.4%

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

The Board of Directors have set a dividend policy that is predicated on what they believe to be a long-term sustainable objective. A number of factors are assessed and evaluated each time the Board reviews, and approves dividends.

For the year ended December 31, 2014, the Company had a modest over distribution of \$0.6 million or 103.1%. The main reason for the over distribution was a reduced weighted average interest rate coupled with lower than planned leverage utilization during the year caused by high turnover. With the increase in the credit facility, the Company will have additional flexibility to increase leverage utilization in 2015 to target a payout ratio of 100%.

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Statements of income (loss) and comprehensive income (loss)

	Three months ended			% Change	Year ended			% Change
	December 31,				December 31,			
	2014	2013		2014	2013			
Net interest income	\$ 7,174	\$ 7,325	(2.1%)	\$ 28,159	\$ 28,234	(0.3%)		
Expenses	(1,274)	(1,436)	11.3%	(4,948)	(9,656)	48.8%		
Income from operations	5,900	5,889	0.2%	23,211	18,578	24.9%		
Financing costs:								
Interest on credit facility	(1,275)	(1,048)	(21.7%)	(4,494)	(2,856)	(57.4%)		
Issuance costs of redeemable shares	–	(4)	100.0%	–	(3,301)	100.0%		
Dividends to holders of redeemable shares	–	(1,851)	100.0%	–	(18,874)	100.0%		
Net income (loss) and comprehensive income (loss)	\$ 4,625	\$ 2,986	54.8%	\$ 18,717	\$ (6,453)	390.0%		
Earnings per share (basic and diluted)¹	\$ 0.15	\$ 0.14	6.2%	\$ 0.59	\$ 0.42	39.7%		

¹ Earnings per share for 2013 has been calculated as if the Transition occurred on January 1, 2013 and as a result, dividends to holders of redeemable shares and issuance costs of redeemable shares for the year ended December 31, 2013 have been added back to the net loss) of the Company.

Net interest income¹

For Q4 2014 and the Year, the Company earned \$7.2 million and \$28.2 million, (Q4 2013 – \$7.3 million; 2013 – \$28.2 million) respectively. The slight decrease in net income over Q4 2013 was due to increased competition and thus a slightly lower average interest rate of 6.2% (2013 – 6.5%). Net interest income is made up of the following:

(a) Interest income

For Q4 2014 and the Year, the Company earned \$6.6 million and \$25.1 million (Q4 2013 – \$6.5 million; 2013 – \$25.6 million) in interest income on the net mortgage investments, respectively. The weighted average interest rate on the net mortgage investments decreased slightly over the Year, to 6.2% at December 31, 2014 from 6.5% at December 31, 2013.

¹ 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.

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(b) Lender fee income

During Q4 2014 and the Year, the Company received non-refundable lender fees of \$0.4 million and \$1.7 million (Q4 2013 – \$1.1 million; 2013 – \$3.3 million), or weighted average lender fees of 0.6% and 0.6% (Q4 2013 – 0.9%; 2013 – 0.9%). These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income. For the three months and year ended December 31, 2014, \$0.6 million and \$2.9 million (Q4 2013 – \$0.7 million; 2013 – \$2.3 million) of non-refundable lender fees were amortized to lender fee income. The lender fees generated by the Company continue to be a significant component of income resulting from mortgage turnover. The Manager does not retain any portion of the lender fees, ensuring management interests are aligned with the Company.

(c) Other income

For Q4 2014 and the Year, the Company earned \$41 and \$153 (Q4 2013 – \$70; 2013 – \$191) in other income. Other income includes fees earned on advances of mortgages, prepayment penalties and exit fees earned on mortgage repayments and other miscellaneous fees. The Manager does not retain any portion of fees, thus maximizing the income of the Company.

Expenses

For Q4 2014 and the Year, the Company's expense ratio was 1.2% and 1.1% (Q4 2013 – 1.3%; 2013 – 1.4%). The decrease from prior year mainly relates to the removal of trailer fees.

Management fees

As part of the Transition, the Company has entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. Under the new management agreement, the Company pays the Manager an annual management fee of 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets are calculated 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.

For Q4 2014 and the Year, the Company incurred management fees of \$1.0 million and \$3.9 million (Q4 2013 – \$1.0 million; 2013 – \$4.0 million).

Trailer fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay trailer fees to brokers effective for the quarter ended September 30, 2013. Prior to September 30, 2013, the Company was paying each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share and 0.25% annually of the net redemption value per Class J share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. As such, the Company paid no trailer fees during Q4 2014 and the Year (Q4 2013 – nil; YTD 2013 – \$0.8 million).

General and administrative

For Q4 2014 and the Year, the Company incurred general and administrative expenses of \$0.3 million and \$0.9 million (Q4 2013 – \$0.3 million; 2013 – \$1.0 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees and other operating costs associated with operating the Company and administration of the mortgage investment portfolio.

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Interest on credit facility

The Company actively monitors the advances and repayments while efficiently using bankers' acceptances ("BA") for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, stand-by fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for the three months and year ended December 31, 2014 were \$1.3 million and \$4.5 million (Q4 2013 – \$1.0 million; 2013 – \$2.9 million), respectively.

Issuance costs of common shares and redeemable shares

The common shares are classified as equity and any costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. For Q4 2014 and the Year, the Company did not incur any issuance costs as there were no equity offerings during the Year.

Prior to the Transition, the Class A, B, I and J shares were classified as liabilities under IFRS, therefore the issuance costs associated with periodic equity offerings were recorded as financing costs and are recognized in profit and loss. In 2013, the Company incurred \$3.3 million in issuance costs relating to the issuance of Class A, B, I and J shares on total gross proceeds of \$62.6 million. The issuance costs include agent's commissions, legal, professional and other costs relating to the offering.

Dividends to holders of redeemable shares and common shares

The Company declared dividends of \$18.9 million (2013 – \$22.0 million). The decrease in dividends declared is due to a reduction in share capital resulting from the Special Redemption. Prior to the Transition, dividends to holders of redeemable shares were recognized in the consolidated statements of net income (loss) and comprehensive income (loss) as financing costs.

	Three months ended December 31, 2014		Year ended December 31, 2014	
	Dividends per share	Total	Dividends per share	Total
Common shares	\$ 0.150	\$ 4,733	\$ 0.600	\$ 18,934

	Three months ended December 31, 2013		Year ended December 31, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A shares	\$ 0.050	\$ 1,808	\$ 0.500	\$ 18,416
Class B shares	0.054	12	0.540	119
Class I shares	0.054	27	0.540	235
Class J shares	0.052	4	0.520	104
Common shares	0.100	3,156	0.100	3,156
		\$ 5,007		\$ 22,030

Management's Discussion and Analysis

For the year ended December 31, 2014

Earnings per share

Earnings per share for the Year was \$0.59 per share (2013 – \$0.42 per share). Earnings per share for 2013 was lower due to one-time Transition related costs and trailer fees resulting in an impact of \$0.13 per share.

Earnings per share for 2013 has been calculated as if the Transition occurred on January 1, 2013 and as a result, dividends to holders of redeemable shares and issuance costs of redeemable shares for the year ended December 31, 2013 have been added back to the net loss of the Company.

STATEMENTS OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	December 31, 2014	December 31, 2013	Change
Gross mortgage investments, including mortgage syndications	\$ 483,209	\$ 515,796	\$ (32,587)
Mortgage syndication liabilities	(51,757)	(115,412)	63,655
	431,452	400,384	31,068
Interest receivable	(2,448)	(2,177)	(271)
Unamortized lender fees	2,117	3,249	(1,132)
Provision for mortgage investment loss	175	–	175
Net mortgage investments	\$ 431,296	\$ 401,456	\$ 29,840

As at December 31, 2014, the Company's mortgage investments portfolio is comprised of 62 mortgage investments (December 31, 2013 – 62), with a weighted average interest rate of 6.2% (December 31, 2014 – 6.5%) and an average mortgage investment of \$7.0 million (December 31, 2013 – \$6.5 million).

Management's Discussion and Analysis

For the year ended December 31, 2014

PORTFOLIO ALLOCATION

As at December 31, the Company's net mortgage investments were allocated across the following categories:

(a) Region

	December 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
ON	31	53.2%	31	45.5%
QC	11	20.5%	9	20.7%
AB	7	4.3%	9	10.3%
BC	6	11.1%	6	14.1%
SK	4	9.2%	4	5.7%
OT	–	–	1	1.9%
NS	1	1.2%	1	1.6%
MB	2	0.5%	1	0.2%
	62	100.0%	62	100.0%

The Company continued to focus its efforts on diversifying the mortgage investment portfolio, with its greatest concentration in Canada's largest provinces. As at December 31, 2014, 89.1% (December 31, 2013 – 90.6%) of the net mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. The Company has continued to maintain significant exposure to Ontario as it has benefited from sourcing mortgages secured by high-quality, cash flowing multi-residential and office assets in good markets, with multiple repeat borrowers with proven track records. Of note, the Company has a low exposure to the Alberta market, which has experience volatility stemming from the recent drop in oil prices.

(b) Maturity

	December 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Maturing 2014	–	–	17	17.1%
Maturing 2015	25	43.4%	33	59.4%
Maturing 2016	21	34.3%	12	23.5%
Maturing 2017	15	21.6%	–	–
Maturing 2018	–	–	–	–
Maturing 2019	1	0.7%	–	–
	62	100.0%	62	100.0%

Management's Discussion and Analysis

For the year ended December 31, 2014

The Company's portfolio turnover rate for the Year was 61.5% (December 31, 2013 – 84.4%). The Company's strong portfolio turnover helps generate fee income, all of which goes to the Company while ensuring the Company is able to respond quickly to a changing interest rate environment. The weighted average term of the portfolio as at December 31, 2014 is 2.4 years (December 31, 2013 – 2.2 years), in-line with the portfolio's target maturity of 2-3 years. The weighted average remaining term to maturity as at December 31, 2014 is 1.3 years (December 31, 2013 – 1.5 years). A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance, which would in effect reduce the weighted average remaining term to maturity.

(c) Asset Type

	December 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Multi-residential	27	36.6%	23	40.3%
Office	12	20.1%	9	14.6%
Retail	7	15.6%	9	12.3%
Retirement	1	4.9%	3	8.7%
Industrial	4	6.0%	6	6.4%
Other-residential	2	4.3%	2	5.5%
Hotels	2	5.3%	2	4.8%
Unimproved land	6	7.0%	4	4.1%
Single-residential	–	–	2	1.7%
Self-storage	1	0.2%	2	1.6%
	62	100.0%	62	100.0%

The Company has developed a lending niche predominantly in cash-flowing assets, while specifically targeting multi-residential assets. Historically, the Company has had very little exposure to land development, single-family residential mortgages and construction loans, where demand is largely impacted by the strength or weakness of the Canadian housing market and typically do not generate cash flow to service the mortgage investment.

Management's Discussion and Analysis

For the year ended December 31, 2014

(d) Interest Rate

	December 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
5.00% or lower	9	19.8%	4	13.2%
5.01%–5.99%	17	29.5%	13	22.2%
6.00%–6.99%	12	19.7%	12	21.8%
7.00% or greater	24	31.0%	33	42.8%
	62	100.0%	62	100.0%

The weighted average interest rate, excluding lender fee income, on the net mortgage investments at December 31, 2014 was 6.2% (December 31, 2013 – 6.5%). The weighted average interest rate was greater than the Company's target return for the Year of 4.55% (December 31, 2013 – 4.61%), equal to the 2-Yr GOC Yield plus 350 basis points.

(e) Loan-to-value

	December 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
55% or less	31	38.9%	29	44.2%
56%–60%	4	6.8%	7	7.3%
61%–65%	7	17.7%	16	30.5%
66%–70%	20	36.6%	10	18.0%
	62	100.0%	62	100.0%

The weighted average loan-to-value on the mortgage portfolio at December 31, 2014 was 55.6% (December 31, 2013 – 50.8%), well below the maximum threshold of 70%.

Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with mainly third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position, all of which is secured by first mortgage positions. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lender's proportionate share together with all accrued interest. During the Year, the mortgage syndication liabilities have decreased to \$51.8 million (December 31, 2013 – \$115.4 million). Mortgage syndication liabilities will vary from quarter to quarter and is dependent on the type of investments seen at any particular time, and not necessarily indicative of a future trend.

Management's Discussion and Analysis

For the year ended December 31, 2014

Allowance for mortgage investments loss

As at December 31, 2014, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investments. 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.

As at December 31, 2014, the Company has a collective impairment allowance of \$0.2 million (December 31, 2013 – nil).

Net working capital

Net working capital increased by \$1.5 million to \$0.8 million at December 31, 2014 from (\$0.7) million at December 31, 2013, mainly due to a decrease in accounts payable. The Company has available its credit facility to manage its working capital while ensuring idle cash is minimized.

Credit Facility

In December 2014, the Company increased the credit facility limit to \$190.0 million bearing interest at either the prime rate of interest plus 1% or BA with a stamping fee of 2% of the face amount of such BA. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on June 23, 2016.

At December 31, 2014 \$142.1 million (December 31, 2013 – \$109.0 million) was outstanding on the credit facility. Interest costs related to the credit facility are recorded in financing costs using the effective interest rate method. For the Year, interest on the credit facility of \$4.5 million (December 31, 2013 – \$2.9 million), is included in financing costs.

As at December 31, 2014, there were \$0.8 million (December 31, 2013 – \$0.2 million) in unamortized financing costs related to the structuring of the credit facility netted against the outstanding balance. For the Year, the Company has amortized financing costs of \$0.6 million (2013 – \$0.6 million), to interest expense using the effective interest rate method.

Common shares

The Company is authorized to issue an unlimited number of common shares. The holders of common shares 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 shall be entitled to receive dividends as and when declared by the board of directors. The common shares are classified as equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

Management's Discussion and Analysis

For the year ended December 31, 2014

Dividend reinvestment plan

As part of the Transition, the Company has amended and restated its dividend reinvestment plan (the "Amended DRIP ") effective as of November 20, 2013. The Amended DRIP replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on April 18, 2012.

The Amended DRIP provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares. For the purpose of the Amended DRIP, "common shares" includes any Class A shares of the Company prior to their exchange into common shares on the Exchange Date, pursuant to the amendment to the Articles of the Company that came into effect on the Effective Date.

Under the Amended DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. For the year ended December 31, 2014, 118,479 common shares were purchased on the open market under the Amended DRIP (2013 – 66,893 Class A shares issued and 82,897 Class A shares purchased on the open market under the Original DRIP, 7,426 common shares purchased on the open market under the Amended DRIP.

Normal course issuer bid

On November 13, 2014 the Company received approval of the TSX to commence a normal course issuer bid (the "2014 NCIB") to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common share float on November 11, 2014. Subject to certain exemptions for block purchases, the maximum number of common shares that the Company may acquire on any one trading day is 8,454 common shares, such amount representing 25% of the average daily trading volume of the common shares for the six calendar months prior to the start of the 2014 NCIB. The 2014 NCIB commenced on November 17, 2014 and will terminate on the earlier of November 16, 2015 or the date on which the Company has purchased the maximum number of common shares permitted under the 2014 NCIB. From November 13, 2014 to December 31, 2014, the Company did not acquire any common shares for cancellation.

The Company may use the 2014 NCIB to repurchase shares in years where the Company has income in excess of its dividends that would be accretive to shareholders.

Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company 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 ("DSUs"), payable quarterly in arrears. Directors may elect once every year, in accordance with the Plan, as to how much (if any) of his/her compensation will be paid in DSUs, having regard at all times for the ownership guidelines of the Plan. 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 purpose of the Plan is to (a) enhance the Company's ability to provide long-term incentive compensation to directors which is linked to the performance of the Company and not dilutive to shareholders, (b) assist the Company in attracting, retaining and motivating its directors and (c) promote a closer alignment of interests between directors and the shareholders of the Company.

Management's Discussion and Analysis

For the year ended December 31, 2014

As part of the Plan, each director must seek to acquire and maintain a direct or indirect ownership of common shares or deferred share units of the Company that has a value equal to at least three times the Director's annual board retainer and meeting fees. Each director is to achieve this level of ownership within five years of becoming subject to the requirement, being January 1, 2015 for the current directors.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for the Year was \$20.9 million (2013 – \$19.2 million), an increase of \$1.7 million, or 9.0%, from 2013. The increase is primarily from one-time Transition costs and removal of trailer fees experienced in prior years, which was partially offset by lower lender fees.

Cash from financing activities

Sources of cash from financing activities consist of the Company's advances on the credit facility of \$33.1 million. After interest payments and financing costs on the credit facility of \$5.3 million and payment of dividends of \$18.9 million, the net cash provided by financing activities was \$8.9 million for the Year.

Cash from investing activities

Cash from investing activities for the Year was \$29.8 million and consisted of repayments of net mortgage investments of \$271.4 million net of fundings of net mortgage investments of \$241.6 million.

Management's Discussion and Analysis

For the year ended December 31, 2014

QUARTERLY FINANCIAL INFORMATION

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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net interest income	\$ 7,174	\$ 6,639	\$ 7,084	\$ 7,262	\$ 7,325	\$ 7,377	\$ 6,964	\$ 6,567
Expenses ¹	(1,274)	(1,158)	(1,167)	(1,350)	(1,436)	(4,954)	(1,613)	(1,655)
Income from operations	5,900	5,481	5,917	5,912	5,889	2,423	5,351	4,912
Financing costs:								
Interest on credit facility	(1,275)	(884)	(1,107)	(1,227)	(1,048)	(662)	(679)	(466)
Issuance costs of redeemable shares	–	–	–	–	(4)	(60)	3	(3,241)
Dividends to holders of redeemable shares	–	–	–	–	(1,851)	(5,644)	(5,708)	(5,671)
	(1,275)	(884)	(1,107)	(1,227)	(2,903)	(6,366)	(6,384)	(9,378)
Net income (loss) and comprehensive income (loss)	\$ 4,625	\$ 4,597	\$ 4,810	\$ 4,685	\$ 2,986	\$ (3,943)	\$ (1,033)	\$ (4,466)
Earnings per share (basic and diluted)²	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	–	–	–	–

1 Q3 2013 includes one-time costs of \$3.7 million relating to the Transition and Q4 2014 includes one-time costs of \$139.

2 Earnings per share for quarters in 2013 has not been presented as the Company did not have equity instruments, as defined in IAS 33, Earnings per Share, as the redeemable shares were classified as financial liability in the statements of financial position.

The variations in net income (loss) and comprehensive income (loss) by quarter are attributed to the following:

- The Company raised gross proceeds of approximately \$62.6 million since Q1 2013. The proceeds from these offering have been used to fund net mortgage investments, the timing of which typically occur around periodic offerings and existing mortgage investment maturities, which vary throughout the year. Following past periodic equity offerings, the Company has been subject to holding idle cash while it originates new mortgage investments or waits for the closing of existing mortgage investment commitments. The Company seeks to deploy idle cash within 60 to 90 days of closing an equity offering.
- 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.
- The dividends to holders of redeemable shares and issuance costs relating to redeemable shares were presented in the statement of income (loss) and comprehensive income (loss) until October 2013. Following the Exchange Date, the dividends to common shareholders are presented in the consolidated statements of changes in shareholders' equity.

Management's Discussion and Analysis

For the year ended December 31, 2014

RELATED PARTY TRANSACTIONS

- As at December 31, 2014, due to Manager includes management fees payable of \$23 (December 31, 2013 – \$318) and \$7 (December 31, 2013 – \$4) relating to costs incurred by the Manager on behalf of the Company.
- As at December 31, 2014, no amount (December 31, 2013 – \$0.3 million) is payable by the Company to TMIC relating to amounts paid on behalf of the Company.
- As at December 31, 2014, included in other assets is \$0.9 million (December 31, 2013 – \$3.1 million), of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc. ("TAMSI"), a company controlled by the Manager. The balance relates to mortgage funding deposits and prepaid mortgage interest received from various borrowers.
- (The Company co-invested in a mortgage investment with a total gross commitment of \$76.1 million with the Company's share of the commitment totalling \$48.6 million. The president of one of the co-investors in the financing is also an independent director of the Company. As at December 31, 2014, the Company has funded \$8.3 million.
- The Company has entered into a mortgage investment with a total gross commitment of \$84.1 million with the Company's share of the commitment totalling \$14.2 million. One independent director of the Company is an officer of an indirect investor in the borrower. Another independent director is an officer and a part-owner of another co-investor in the borrower. As at December 31, 2014, the Company funded \$1.6 million.
- The Company has entered into a mortgage investment with a total gross commitment of \$4.6 million, with the Company's share of the commitment totalling \$3.9 million. An independent director is an officer and a part-owner of the borrower. During 2014, the Company funded a total amount of \$3.9 million and was subsequently repaid in full.
- In addition to the above related party transactions, the Company has transacted with other funds managed by the Manager, which are as follows:
 - As at December 31, 2014, the Company, Timbercreek Mortgage Investment Corporation ("TMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments, totalling \$566.8 million (December 31, 2013 – \$683.2 million). The Company's share in these net mortgage investments is \$423.3 million (December 31, 2013 – \$466.0 million). Included in these amounts are a net mortgage investment of \$8.9 million (December 31, 2013 – \$7.7 million) was provided to a limited partnership, which is partially owned by T4Q.

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 mortgages. 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 year ended December 31, 2014

CRITICAL ACCOUNTING ESTIMATES

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

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

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: 1) payment default by a borrower; 2) whether security of the mortgage negatively impacted by some event; and 3) 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 pricing services, is used to measure fair values, then the Manager assesses 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 year ended December 31, 2014

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014.

(i) IAS 32, Financial Instruments: Presentation ("IAS 32")

In December 2011, the IASB published Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and issued new disclosure requirements in IFRS 7, Financial Instruments: Disclosures, with the amendments applied retrospectively. The implementation of this amendment has resulted in presentation of cash and cash equivalents separately, which was previously offset against the advances from (repayments of) credit facility in the cash flow statement. For the year ended December 31, 2014, the impact of this change in financing activities is nil. For the year ended December 31, 2013, the impact of this change in financing activities is a decrease of \$3.2 million and an increase of cash and cash equivalents by \$3.2 million at December 31, 2012.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

(i) IFRS 9, Financial Instruments ("IFRS 9")

On July 24, 2014, the IASB issued IFRS 9. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. The standard will be effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively with some exemptions. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

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

In May 2014, the IASB issued IFRS 15. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

OUTSTANDING SHARE DATA

As at February 24, 2015, the Company's authorized capital consists of an unlimited number of common shares, of which 31,556,608 are issued and outstanding.

Management's Discussion and Analysis

For the year ended December 31, 2014

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 defines its capital structure to include common shares and the credit facility.

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 intends to qualify as a MIC as defined under Section 130.1(6) of the Income Tax Act (Canada) 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, equity offerings and the credit facility. The Company routinely forecasts cash flow sources and requirements to ensure cash is efficiently utilized. In addition, with the increase in the Company's borrowing ability to \$190.0 million (2013 – \$130.0 million) through its credit facility and it expects to increase its leverage ratio in order to manage the fluctuations in excess cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs. Of note, the credit facility was utilized by the Company to assist with funding the Special Redemption.

The following are the contractual maturities of financial liabilities as at December 31, 2014, including expected interest payments:

December 31, 2014	Carrying values	Contractual cash flows	Within a year	Following year	3 – 5 years
Accounts payable and accrued expenses	\$ 287	\$ 287	\$ 287	\$ –	\$ –
Dividends payable	1,578	1,578	1,578	–	–
Due to Manager	30	30	30	–	–
Mortgage funding holdbacks	93	93	93	–	–
Prepaid mortgage interest	765	765	765	–	–
Credit facility ¹	142,076	150,484	5,683	144,801	–
	144,829	153,237	8,436	144,801	–
Unadvanced mortgage commitments ²	–	129,495	129,495	–	–
	\$ 144,829	\$ 282,732	\$ 137,931	\$ 144,801	\$ –

1. Contractual cash flows include interest on the credit facility assuming the outstanding balance is not repaid until its maturity in June 2016.

2. Unadvanced mortgage commitments include syndication commitments.

Management's Discussion and Analysis

For the year ended December 31, 2014

As at December 31, 2014, the Company's cash position was nil and there was an undrawn credit facility balance of \$47.9 million (December 31, 2013 – \$21.0 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.

FINANCIAL INSTRUMENTS

Financial assets

The Company's other assets and mortgage investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of 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, and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of 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 underlying mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

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.

The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are interest rate risk, credit risk, and liquidity risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2014, \$53.9 million of mortgage investments bear interest at variable rates. Of this amount, \$52.3 million of mortgage investments include a "floor-rate" to protect its down-side exposure and one mortgage investments of \$1.6 million do not include a floor rate. If there were a 0.50% decrease in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$8; whereas a 0.50% increase in interest rates would result in an increase of \$0.3 million in net income of the Company. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding, a "floor-rate" to protect its down-side exposure.

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For the year ended December 31, 2014

The Company is exposed to interest rate risk on the credit facility, which has a balance of \$142.1 million as at December 31, 2014. Based on the outstanding balance of the credit facility as at December 31, 2014, a 0.50% decrease in interest rates, with all other variables constant, will increase net income by \$0.7 million annually, arising mainly as a result of lower interest expense payable on the credit facility. A 0.50% increase in interest rates would have an equal but opposite effect on the net income of the Company.

The Company's other assets, accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, and prepaid mortgage interest have no exposure to interest rate risk due to their short-term nature.

(b) Credit risk

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

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

The maximum exposure to credit risk at December 31, 2014 is the carrying values of its net mortgage investments and accrued interest, which total \$433.7 million (December 31, 2013 – \$403.6 million). The Company has recourse under these mortgage investments in the event of default by the borrower, in which case the Company would have a claim against the underlying collateral.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash and the credit facility is efficiently utilized.

For a full discussion of the risks and uncertainties, please also refer to the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2014.

Management's Discussion and Analysis

For the year ended December 31, 2014

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company, under their direct supervision, have designed disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) to provide reasonable assurance that material information relating to the Company is gathered and reported to the CEO and CFO and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS during the year ended December 31, 2014.

As at December 31, 2014, the Company's disclosure controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2014.

The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2014. Based on that assessment they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the COSO Internal Control - Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission.

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) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. There were no changes made in our internal controls over financial reporting during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Management's Discussion and Analysis

For the year ended December 31, 2014

ADDITIONAL INFORMATION

Phone

Calling the Company at 1-866-898-8868, 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) 306-9967 ext. 7266 (collect if long distance).

Internet

Visiting SEDAR at www.sedar.com; or the Company's website at www.timbercreekseniormic.com.

Mail

Writing to the Company at:

Timbercreek Senior Mortgage Investment Corporation
Attention: Corporate Communications
1000 Yonge Street, Suite 500
Toronto, Ontario M4W 2K2