

## Management's Discussion and Analysis

# Timbercreek Senior Mortgage Investment Corporation

For the year ended December 31, 2015



**Timbercreek**

Senior Mortgage Investment Corporation

# Management's Discussion and Analysis

For the year ended December 31, 2015

## 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", "expect", "anticipate", "would", "will", "intend", "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](http://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 23, 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.timbercreekseniormic.com](http://www.timbercreekseniormic.com). Additional information about the Company, including its AIF, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

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## BUSINESS OVERVIEW

Timbercreek Senior Mortgage Investment Corporation (the Company) is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 25 Price Street Toronto, Ontario M4W 1Z1. The Company is incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011. The common shares of the Company are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "MTG".

The Company invests in first mortgage investments selected and determined to be high quality by the Manager, 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).

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.

The Company has entered into a management agreement with the Manager dated September 13, 2013. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services to the Company.

## 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, 2015. This MD&A should be read in conjunction with the consolidated financial statements for the year 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 ("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](http://www.sedar.com).

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## 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 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 net income and comprehensive income or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date;
- 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 investments for the stated period;
- Leverage – represents the total credit facility balance divided by total assets less mortgage syndication liabilities for the stated period;
- 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 stated 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 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;
- Targeted dividend yield – represents the average 2-Year Government of Canada Bond Yield for the stated period plus 350 basis points;
- Actual dividend yield – represents the annualized total per-share dividend for common shares divided by the trading close price as at the reporting date;

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- Adjusted net income and comprehensive income – represents net income and comprehensive income 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;
- Expense ratio – represents total expenses (excluding financing costs and provision for mortgage investments loss) for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities; and
- Payout ratio – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

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## RECENT DEVELOPMENTS AND OUTLOOK

The Company demonstrated another strong year of performance in 2015. We deployed over \$299 million throughout the year growing the portfolio by 5%, which overall resulted in an increase in net income of 3%.

Managing risk across the portfolio remains our top priority. We continue to target exclusively first mortgages primarily secured by institutional-quality, cash-flowing properties where there is rental income to service the interest payments. We also continue to focus our lending activity in larger cities where we believe there is better liquidity. As at December 31, 2015, 90% of the portfolio was secured by real estate with existing rental income while loans secured by unimproved land were limited to 5%, down from 7% at the end of 2014. While the company does have 11.9% exposure to the Alberta market, we are in the process of syndicating one loan, as part of the normal process, which will result in a reduced exposure to that market by the end of the first quarter.

Aside from the Alberta market and certain areas of the office sector, we believe fundamentals in the commercial real estate market across Canada continue to remain very healthy, creating a good environment for mortgage lending. This is primarily a result of continued demand for investment properties from both domestic investors benefiting from the lower cost of mortgage debt and foreign investors capitalizing on the attractively priced Canadian dollar.

Turnover in the portfolio remained stable through 2015 at 61%. We believe this strong repayment activity further demonstrates the quality of our loans and the strength of our underwriting. Despite the sustained low-interest-rate environment, the Company was able to redeploy all of the capital repaid in the year with effectively no change to the weighted average interest rate in the portfolio.

Overall, performance in 2015 was strong and we will continue to focus closely on managing risk across the portfolio through careful selection and underwriting of the new investments and thorough oversight of the existing loans to ensure that this momentum continues through 2016.

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## FINANCIAL HIGHLIGHTS

### FINANCIAL POSITION

As at	December 31, 2015	December 31, 2014	December 31, 2013
<b>KEY FINANCIAL POSITION INFORMATION</b>			
Mortgage investments, including mortgage syndications	\$ 481,262	\$ 483,209	\$ 515,797
Total assets	\$ 481,924	\$ 484,288	\$ 519,007
Credit facility	\$ 164,366	\$ 142,076	\$ 108,971
Total liabilities	\$ 193,797	\$ 195,743	\$ 230,245
<b>CAPITAL STRUCTURE</b>			
Shareholders' equity	\$ 288,127	\$ 288,545	\$ 288,762
Credit facility limit	\$ 190,000	\$ 190,000	\$ 130,000
Credit facility balance	\$ 164,366	\$ 142,076	\$ 108,971
Leverage <sup>1</sup>	36.1%	32.9%	27.0%
<b>COMMON SHARE INFORMATION</b>			
Number of common shares outstanding	31,451,154	31,556,608	31,556,608
Closing trading price	\$ 7.78	\$ 8.71	\$ 8.54
Market capitalization	\$ 244,690	\$ 274,858	\$ 269,493

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

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## OPERATING RESULTS

	For the three months ended December 31,		For the year ended December 31,		
	2015	2014	2015	2014	2013
Net interest income	\$ 7,689	\$ 7,174	\$ 30,318	\$ 28,159	\$ 28,234
Income from operations	\$ 6,313	\$ 5,900	\$ 24,952	\$ 23,211	\$ 18,578
Net income (loss) and comprehensive income (loss)	\$ 4,899	\$ 4,625	\$ 19,296	\$ 18,717	\$ (6,453)
Earnings per share (basic and diluted)	\$ 0.15	\$ 0.15	\$ 0.61	\$ 0.59	\$ 0.42
Adjusted net income and comprehensive income <sup>1</sup>	\$ 4,899	\$ 4,625	\$ 19,296	\$ 18,717	\$ 19,593
Adjusted earnings per share (basic and diluted) <sup>1</sup>	\$ 0.15	\$ 0.15	\$ 0.61	\$ 0.59	\$ 0.53
Dividends to common shareholders	\$ 4,719	\$ 4,733	\$ 18,913	\$ 18,934	\$ 22,030
Distributable income	\$ 5,137	\$ 4,573	\$ 19,718	\$ 18,362	\$ 21,082
Distributable income per share (basic and diluted) <sup>2</sup>	\$ 0.17	\$ 0.14	\$ 0.63	\$ 0.58	\$ 0.57
Targeted dividend yield <sup>1</sup>	4.07%	4.52%	4.05%	4.55%	4.61%
Actual dividend yield <sup>1</sup>	7.65%	6.83%	7.71%	6.89%	7.03%
Payout ratio	91.9%	103.5%	95.9%	103.1%	104.5%
Dividends per share:					
Class A	\$ –	\$ –	\$ –	\$ –	\$ 0.50
Class B	\$ –	\$ –	\$ –	\$ –	\$ 0.54
Class I	\$ –	\$ –	\$ –	\$ –	\$ 0.54
Class J	\$ –	\$ –	\$ –	\$ –	\$ 0.52
Common	\$ 0.15	\$ 0.15	\$ 0.60	\$ 0.60	\$ 0.10

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

2. In 2015, the Company repurchased its common shares as part of normal course issuer bid resulting in lower shareholders' equity at December 31, 2015.



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For the year ended December 31, 2015

## For the three months ended December 31, 2015 ("Q4 2015") and December 31, 2014 ("Q4 2014")

- The Company advanced six new net mortgage investments (Q4 2014 – five) totalling \$58.6 million (Q4 2014 – \$50.8 million), had additional advances on existing net mortgage investments totalling \$14.8 million (Q4 2014 – \$17.6 million) and received full repayments on 12 net mortgage investments (Q4 2014 – eight) and partial paydowns totalling \$94.6 million (Q4 2014 – \$54.8 million), resulting in net mortgage investments of \$452.6 million as at December 31, 2015 (September 30, 2015 – \$473.8 million).
- Non-refundable lender fees received by the Company were \$0.7 million (Q4 2014 – \$0.4 million) or weighted average lender fees of 0.8% (Q4 2014 – 0.5%). The Company generates lender fees predominantly from fundings of new mortgage investments and the increase is mainly attributable to higher new net mortgage investments and the percentage of the lender fees received.
- Net interest income generated by the Company was \$7.7 million (Q4 2014 – \$7.2 million), an increase of \$0.5 million or 7.2% over Q4 2014. The increase in net interest income is mainly due to an increase of approximately \$37.6 million in the average net mortgage investments portfolio during Q4 2015 relative to Q4 2014. This was due to average credit facility utilization of \$172.1 million (Q4 2014 – \$132.6 million). This increase was reduced in part by a lower weighted average interest rate for the period of 6.1% (Q4 2014 – 6.2%) and lower amortization of lender fees.
- Income from operations generated by the Company was \$6.3 million (Q4 2014 – \$5.9 million), an increase of \$0.4 million or 7.0% over Q4 2014 due to an increase in net interest income.
- The Company generated net income and comprehensive income of \$4.9 million (Q4 2014 – \$4.6 million), an increase of \$0.3 million or 5.9%, from Q4 2014, resulting in earnings per share of \$0.15 (Q4 2014 – \$0.15).
- The Company generated distributable income of \$5.1 million (Q4 2014 – \$4.6 million) in the quarter resulting in a payout ratio of 91.9% (Q4 2014 – 103.5%).
- The Board of Directors declared dividends to common shareholders of \$4.7 million (Q4 2014 – \$4.7 million), \$0.15 (Q4 2014 - \$0.15) per share.
- The Company acquired 7,100 common shares (Q4 2014 – nil) for cancellation under its normal course issuer bid at a cost of \$53 (Q4 2014 – nil) at an average price of \$7.47 per common share.

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For the year ended December 31, 2015

## For the years ended December 31, 2015 (the "Year") and December 31, 2014 ("2014")

- The Company advanced 29 new net mortgage investments (2014 – 32) totalling \$214.3 million (2014 – \$220.3 million), had additional advances on existing net mortgage investments totalling \$84.7 million (2014 – \$51.1 million) and received full repayments on 35 net mortgage investments (2014 – 32) and partial paydowns totalling \$277.7 million (2014 – \$241.6 million), resulting in net mortgage investments of \$452.6 million as at December 31, 2015 (December 31, 2014 – \$431.3 million). Overall, the net mortgage investments portfolio grew by 4.9% in 2015.
- Non-refundable cash lender fees received by the Company were \$2.3 million (2014 – \$1.7 million) or weighted average lender fees of 0.8% (2014 – 0.6%). The increase in lender fees is mainly due to higher average lender fees received on new mortgage investments.
- Net interest income generated by the Company was \$30.3 million (2014 – \$28.2 million), an increase of \$2.1 million or 7.7% over 2014. The increase in net interest income is mainly due to a larger average net mortgage investments portfolio of \$452.9 million in 2015 relative to \$394.1 million in 2014. This was a result of the average credit facility utilization of \$164.4 million (2014 – \$106.8 million). This increase was reduced by a lower weighted average interest rate for the Year of 6.1% (2014 – 6.4%).
- Income from operations generated by the Company was \$25.0 million (2014 – \$23.2 million), an increase of \$1.8 million or 7.5% over 2014, mainly due to higher net interest income. The increase was offset by higher management fees due to a larger average mortgage investment portfolio.
- The Company generated net income and comprehensive income of \$19.3 million (2014 – \$18.7 million), an increase of \$0.6 million or 3.1% from 2014, resulting in earnings per share of \$0.61 (2014 – \$0.59).
- The Board of Directors declared dividends to common shareholders of \$18.9 million (2014 – 18.9 million), \$0.60 (2014 - \$0.60) per share.
- The Company generated distributable income of \$19.7 million (2014 – \$18.4 million) or an increase of \$1.3 million from 2014 resulting in a payout ratio of 95.9% (2014 – 103.1%).
- The Company acquired 105,454 common shares (2014 – nil) for cancellation under its normal course issuer bid at a cost of \$0.8 million (2014 – nil) at an average price of \$7.60 per common share. Subsequent to year-end, the Company re-instituted the normal course issuer bid following TSX approval.

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## ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

### Distributable income

	For the three months ended December 31,		For the years ended December 31,	
	2015	2014	2015	2014
Net income and comprehensive income	\$ 4,899	\$ 4,625	\$ 19,296	\$ 18,717
Less: amortization of lender fees	(564)	(572)	(2,419)	(2,859)
Add: lender fees received	658	367	2,261	1,727
Add: amortization of financing costs	144	153	580	602
Add: provision for mortgage investments loss	–	–	–	175
<b>Distributable income</b>	<b>\$ 5,137</b>	<b>\$ 4,573</b>	<b>\$ 19,718</b>	<b>\$ 18,362</b>
Less: dividends on common shares	(4,719)	(4,733)	(18,913)	(18,934)
<b>(Over) under distribution</b>	<b>\$ 418</b>	<b>\$ (160)</b>	<b>\$ 805</b>	<b>\$ (572)</b>
Distributable income per share (basic and diluted)	\$ 0.17	\$ 0.14	\$ 0.63	\$ 0.58
Payout ratio	91.9%	103.5%	95.9%	103.1%
Turnover ratio	20.5%	13.0%	60.5%	61.5%

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. The Company expects minor fluctuations in payout ratios as dividends are straight-lined while we experience fluctuations in generating distributable income during the year.

In 2015, the Company generated distributable income in excess of dividends, resulting in a 95.9% payout ratio (2014 – 103.1%). The Board of Directors decided that it was prudent to retain this income in order to enhance shareholder value.

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## Statements of income and comprehensive income

	For the three months ended December 31,			For the years ended December 31,		
	2015	2014	% Change	2015	2014	% Change
Net interest income	\$ 7,689	\$ 7,174	7.2%	\$ 30,318	\$ 28,159	7.7%
Expenses	(1,376)	(1,274)	(8.0%)	(5,367)	(4,948)	(8.5%)
Income from operations	6,313	5,900	7.0%	24,951	23,211	7.5%
Financing costs:						
Interest on credit facility	(1,414)	(1,275)	(10.9%)	(5,655)	(4,494)	(25.9%)
<b>Net income and comprehensive income</b>	<b>\$ 4,899</b>	<b>\$ 4,625</b>	<b>5.9%</b>	<b>\$ 19,296</b>	<b>\$ 18,717</b>	<b>3.1%</b>
<b>Earnings per share (basic and diluted)</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>		<b>\$ 0.61</b>	<b>\$ 0.59</b>	

### Net interest income<sup>1</sup>

For Q4 2015 and the Year, the Company earned \$7.7 million and \$30.3 million (Q4 2014 – \$7.2 million; 2014 – \$28.2 million) respectively. Net interest income includes the following:

#### (a) Interest income

For Q4 2015 and the Year, the Company earned \$7.0 million and \$27.7 million (Q4 2014 – \$6.6 million; 2014 – \$25.1 million) in interest income on the net mortgage investments. The increase in interest income is attributable to an increase in the average net mortgage investments portfolio by \$37.6 million and \$58.8 million in Q4 2015 and the Year in relation to Q4 2014 and 2014, respectively. This increase in interest income was partially reduced by a lower weighted average interest rate for the period of 6.1% during Q4 2015 and the Year (Q4 2014 – 6.2%; 2014 – 6.4%), although it was still within our target range.

#### (b) Lender fee income

During Q4 2015 and the Year, the Company received non-refundable lender fees of \$0.7 million and \$2.3 million (Q4 2014 – \$0.4 million; 2014 – \$1.7 million), or weighted average lender fees of 0.8% and 0.8% (Q4 2014 – 0.5%; 2014 – 0.6%). The increase in lender fees in the Year was due to generally higher average lender fees received on new mortgage investments. These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income but are paid out in the year they are received. (See Distributable Income table.) For Q4 2015 and the Year, \$0.6 million and \$2.4 million (Q4 2014 – \$0.6 million; 2014 – \$2.9 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 investment turnover. The Manager does not

<sup>1</sup> 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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retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders.

## Expenses

For Q4 2015 and the Year, the Company's expense ratio was 1.2% (Q4 2014 – 1.2%; 2014 – 1.1%). The increase is mainly related to higher professional fees and directors fees as compared to 2014.

### (a) Management fees

In accordance with the 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 2015 and the Year, the Company incurred management fees of \$1.1 million and \$4.4 million (Q4 2014 – \$1.0 million; 2014 – \$3.9 million). The higher management fees are due to a larger average mortgage investments balance in the Year.

### (b) General and administrative

For Q4 2015 and the Year, the Company incurred general and administrative expenses of \$237 and \$939 (Q4 2014 – \$256; 2014 – \$885). 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. The increase in general and administrative expenses for the Year relative to 2014 is attributed to increased professional fees and director fees related to the new deferred stock unit (DSU) plan.

## Interest on credit facility

The Company actively monitors advances and repayments while efficiently using bankers' acceptances ("BAs") for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q4 2015 and the Year were \$1.4 million and \$5.7 million (Q4 2014 – \$1.3 million; 2014 – \$4.5 million). The increase is due to greater utilization of the credit facility in Q4 2015 and the Year as compared to Q4 2014 and 2014. The average utilization of the credit facility during the Year was \$164.4 million compared to \$106.8 million in 2014.

## Earnings per share

Earnings per share for Q4 2015 and the Year was \$0.15 per share and \$0.61 per share (Q4 2014 – \$0.15 per share; 2014 – \$0.59 per share) and is slightly greater than the Company's dividend per share of \$0.60.

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## STATEMENTS OF FINANCIAL POSITION

### Net mortgage investments

The balance of net mortgage investments is as follows:

	December 31, 2015	December 31, 2014
Gross mortgage investments, including mortgage syndications	\$ 481,262	\$ 483,209
Mortgage syndication liabilities	(27,108)	(51,757)
	454,154	431,452
Interest receivable	(3,684)	(2,448)
Unamortized lender fees	1,959	2,117
Provision for mortgage investment loss	175	175
<b>Net mortgage investments</b>	<b>\$ 452,604</b>	<b>\$ 431,296</b>

	For the three months ended December 31,		For the years ended December 31,	
	2015	2014	2015	2014
<b>NET MORTGAGE INVESTMENTS STATISTICS AND RATIOS</b>				
Total number of net mortgage investments	57	62	57	62
Average net mortgage investment	\$ 7,940	\$ 6,956	\$ 7,940	\$ 6,956
Average net mortgage investment portfolio <sup>1</sup>	\$ 458,392	\$ 420,780	\$ 452,894	\$ 394,061
Weighted average interest rate for the period <sup>1</sup>	6.1%	6.2%	6.1%	6.4%
Weighted average lender fees <sup>1</sup>	0.8%	0.5%	0.8%	0.6%
Turnover ratio <sup>1</sup>	20.5%	13.0%	60.5%	61.5%
Weighted average term (years)	2.6	2.4	2.6	2.4
Weighted average remaining term to maturity (years)	1.4	1.3	1.4	1.3
Net mortgage investments secured by cash-flowing properties (as at)	84.5%	82.8%	84.5%	82.8%
Weighted average loan-to-value <sup>1</sup>	55.5%	55.6%	55.5%	55.6%

<sup>1</sup> Refer to non-IFRS measures section, where applicable.

The Company has developed a lending strategy predominantly targeting short-term mortgage investments, secured by cash-flowing properties, while specializing in multi-residential real estate assets. The Company focuses its efforts on diversifying the mortgage investments portfolio, with its greatest concentration in Canada's largest provinces. As at December 31, 2015, 92.0% (December 31, 2014 – 89.1%) of the net mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. Although Alberta has experienced weakness, the Company has seen some excellent opportunities resulting in increased allocation in relation to 2014. A majority of the mortgage investments contain a prepayment option, whereby the borrower

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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.

## PORTFOLIO ALLOCATION

The Company's net mortgage investments were allocated across the following categories:

### (a) Region

	December 31, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
ON	22	39.2%	31	53.2%
QC	16	35.7%	11	20.5%
AB	5	11.9%	7	4.3%
BC	5	5.2%	6	11.1%
SK	4	4.1%	4	9.2%
MB	4	2.1%	2	0.5%
NS	1	1.8%	1	1.2%
	<b>57</b>	<b>100.0%</b>	<b>62</b>	<b>100.0%</b>

### (b) Maturity

	December 31, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Maturing 2015	–	–	25	43.4%
Maturing 2016	21	40.4%	21	34.3%
Maturing 2017	30	44.7%	15	21.6%
Maturing 2018	3	4.7%	–	–
Maturing 2019	1	0.7%	1	0.7%
Maturing 2020	1	3.5%	–	–
Maturing thereafter	1	6.0%	–	–
	<b>57</b>	<b>100.0%</b>	<b>62</b>	<b>100.0%</b>

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## (c) Asset Type

	December 31, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Multi-residential	32	37.5%	27	36.6%
Retail	6	29.0%	7	15.6%
Office	5	8.0%	12	20.1%
Retirement	2	6.3%	1	4.9%
Hotels	1	6.3%	2	5.3%
Other residential	3	5.5%	2	4.3%
Unimproved land	4	5.0%	6	7.0%
Industrial	3	2.0%	4	6.0%
Self-storage	1	0.4%	1	0.2%
	<b>57</b>	<b>100.0%</b>	<b>62</b>	<b>100.0%</b>

## (d) Interest Rate

	December 31, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
5.00% or lower	7	14.6%	9	19.8%
5.01% - 5.99%	24	45.2%	17	29.5%
6.00% - 6.99%	12	25.2%	12	19.7%
7.00% or greater	14	15.0%	24	31.0%
	<b>57</b>	<b>100.0%</b>	<b>62</b>	<b>100.0%</b>

## (e) Loan-to-value

	December 30, 2015		December 31, 2014	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
55% or less	25	45.5%	31	38.9%
55% - 60%	8	6.9%	4	6.8%
61% - 65%	10	15.6%	7	17.7%
66% - 70%	14	32.0%	20	36.6%
	<b>57</b>	<b>100.0%</b>	<b>62</b>	<b>100.0%</b>



# Management's Discussion and Analysis

For the year ended December 31, 2015

## **Mortgage syndication liabilities**

The Company has entered into certain mortgage participation agreements, mainly 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. The Company generally retains an option for 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. During the Year, the mortgage syndication liabilities have decreased to \$27.1 million (December 31, 2014 – \$51.8 million). Mortgage syndication liabilities will vary from quarter to quarter and are dependent on the type of investment seen at any particular time, and are not necessarily indicative of a future trend.

## **Allowance for mortgage investments loss**

As at December 31, 2015, 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.

As at December 31, 2015, the Company has a collective impairment allowance of \$0.2 million (December 31, 2014 – \$0.2 million).

## **Net working capital**

Net working capital increased by \$1.0 million to \$1.8 million at December 31, 2015 from \$0.8 million at December 31, 2014. The change in net working capital is primarily attributed to higher interest receivable at December 31, 2015 in relation to December 31, 2014, mainly due to a larger net mortgages portfolio at December 31, 2015. The Company uses the credit facility to manage fluctuations in the working capital.

## **Credit Facility**

As at December 31, 2015, the Company has a credit facility with an available limit of up to \$190.0 million (December 31, 2014 – \$190.0 million), subject to its borrowing base as set out in the credit agreement. The credit facility bears 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 and the Company expects to renew the facility at similar terms prior to the maturity date.

As at December 31, 2015, \$164.4 million (December 31, 2014 – \$142.1) was outstanding on the credit facility, with an average utilization of \$164.4 million (2014 – \$106.8 million). For the Year, interest costs of \$5.7 million (2014 – \$4.5 million) related to the credit facility are recorded in financing costs using the effective interest rate method.

# Management's Discussion and Analysis

For the year ended December 31, 2015

As at December 31, 2015, there were \$0.3 million (December 31, 2014 – \$0.8 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 (2014 – \$0.6 million) to interest expense using the effective interest rate method.

## Shareholders' Equity

### (a) 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 shareholders' meetings. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

### (b) Dividends

During the Year, the Board of Directors declared dividends of \$18.9 million or \$0.60 per common share (2014 – \$18.9 million or \$0.60 per common share).

### (c) Dividend reinvestment plan

Under the dividend reinvestment plan (DRIP), eligible 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. During the Year, 156,913 (2014 – 118,479) common shares were purchased on the open market under the DRIP.

### (d) Normal course issuer bid

On November 13, 2014, the Company received approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common share float, as at November 11, 2014, with the approval expiring on November 16, 2015. Subject to certain exemptions for block purchases, the maximum number of common shares that the Company could acquire on any one trading day was 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 Bid. During the Year, the Company acquired 105,454 shares for cancellation at a cost of \$0.8 million (2014 – nil).

On January 4, 2016, the Company received TSX approval to reinstate a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 3,116,479 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced on January 6, 2016 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on January 5, 2017, or such earlier date as the Bid is complete. From January 6, 2016 to February 23, 2016, the Company did not acquire any common shares for cancellation.

### (e) Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan (the "Plan") for the purpose of: (i) enhancing the Company's ability to provide to directors long-term incentive compensation that is linked to performance of the Company and not dilutive to

# Management's Discussion and Analysis

For the year ended December 31, 2015

shareholders, (ii) assisting the Company in attracting, retaining and motivating its directors; and (iii) promoting a closer alignment of interests between directors and the shareholders of the Company. Under the Plan, up to 100% of the compensation for a director may be paid to the director in the form of DSUs, credited quarterly in arrears. Directors may elect annually, in accordance with the Plan, as to how much (if any) of the 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 fair market value 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 granted entitle the directors to also accumulate DSUs equal to the monthly cash dividends, assuming the reinvestment of the dividends into units is based upon the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director's DSU account 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 number of DSUs that is equal to the result of multiplying 25% of the director's DSU issuance up to a maximum value of \$5 thousand 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 of one common share as of the 24th business day after publication of the financial statements following a director's departure from the Board of Directors.

In conjunction with the Plan, the Company has also adopted a share ownership guideline for the non-executive directors. The ownership guidelines require that each non-executive director acquire and maintain a level of ownership that has a value equal to at least three times their annual retainer and meeting fees, within a five-year period.

For the Year, the directors, on average, have elected to receive 87% of their compensation in DSUs. For the Year, 17,557 DSUs were issued and outstanding and no DSUs were exercised or cancelled. For the Year, the DSU expense was \$131 based on a Fair Market Value of \$7.46 per common share. As at December 31, 2015, \$56 in DSUs relating to Q4 2015 will be issued subsequent to year-end which is included in accrued expenses.

## STATEMENT OF CASH FLOWS

### Cash from operating activities

During the Year, cash generated from operating activities was \$23.9 million (2014 – \$20.9 million), an increase of \$3.0 million, or 14.4% over 2014. The increase in 2015 is primarily due to higher income from operations and reduction of other assets. The increase in 2015 is also affected by an increase in cash lender fees received as well as a decrease in accounts payable and accrued expenses.

### Cash from (used in) financing activities

During the Year, financing activities consisted of the Company's net advances on the credit facility of \$22.3 million (2014 – \$33.1 million). The Company paid interest and financing costs on the credit facility of \$5.2 million (2014 – \$5.3 million), as well as dividends of \$18.9 million (2014 – \$18.9 million). The company purchased

# Management's Discussion and Analysis

For the year ended December 31, 2015

common shares for cancellation under the normal course issuer bid of \$0.8 million (2014 – nil). The net cash outflow used in financing activities was \$2.6 million (2014 – \$8.9 million cash generated from financing activities), which was mainly from drawings on the credit facility which were used to fund net mortgage investments.

## Cash used in investing activities

Net cash used in investing activities for the Year was \$21.3 million (2014 – \$29.8 million) and consisted of fundings of net mortgage investments of \$299.0 million (2014 – \$271.4 million) which were reduced by repayments of net mortgage investments of \$277.7 million (2014 – \$241.6 million).

## QUARTERLY FINANCIAL INFORMATION

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

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net interest income	\$ 7,689	\$ 7,564	\$ 7,766	\$ 7,300	\$ 7,174	\$ 6,639	\$ 7,084	\$ 7,262
Expenses	(1,376)	(1,352)	(1,350)	(1,289)	(1,274)	(1,158)	(1,167)	(1,350)
Income from operations	6,313	6,212	6,416	6,011	5,900	5,481	5,917	5,912
Financing costs:								
Interest on credit facility	(1,414)	(1,412)	(1,465)	(1,366)	(1,275)	(884)	(1,107)	(1,227)
	(1,414)	(1,412)	(1,465)	(1,366)	(1,275)	(884)	(1,107)	(1,227)
<b>Net income and comprehensive income</b>	<b>\$ 4,899</b>	<b>\$ 4,800</b>	<b>\$ 4,951</b>	<b>\$ 4,645</b>	<b>\$ 4,625</b>	<b>\$ 4,597</b>	<b>\$ 4,810</b>	<b>\$ 4,685</b>
<b>Earnings per share (basic and diluted)</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.16</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>	<b>\$ 0.15</b>

The Company has been able to generate stable earnings quarter over quarter and which results in earnings per share that is in line with dividends per share. In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments, which also results in fluctuations in the use of the credit facility. As a result, net interest income and interest expense are 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.

## RELATED PARTY TRANSACTIONS

As at December 31, 2015, due to Manager include \$32 relating to management fees payable (December 31, 2014 – \$23) and \$9 relating to costs incurred by the Manager on behalf of the Company (December 31, 2014 – \$7).

The Manager is responsible for the general management and day-to-day operations of the Company and, through Timbercreek Mortgage Servicing Inc. ("TMSI"), a company also controlled by the Manager, acts as the Company's mortgage servicer and administrator. As at December 31, 2015, included in other assets is \$483 (December 31, 2014 – \$858) of cash held in trust for the Company by TMSI, the balance of which relates to mortgage funding holdbacks, prepaid mortgage interest and other receivables from various borrowers.

# Management's Discussion and Analysis

For the year ended December 31, 2015

As at December 31, 2015, the Company remains co-invested in a mortgage investment with a total gross commitment of \$76.1 million (December 31, 2014 – \$76.1 million) where the president of one of the co-investors in the financing is also an independent director of the Company. The Company's share of the commitment is \$48.6 million (December 31, 2014 – \$48.6 million), of which \$28.3 million (December 31, 2014 – \$8.3 million) has been funded as at December 31, 2015. This investment was previously reviewed and approved by the governance committee and the independent director's continued independence was confirmed.

As at December 31, 2015, the Company has a mortgage investment with a total gross commitment of \$84.1 million (December 31, 2014 – \$84.1 million) where 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. The Company's share of the commitment is \$14.2 million (December 31, 2014 – \$14.2 million), of which \$1.6 million (December 31, 2014 – \$1.6 million) has been funded as at December 31, 2015. This investment was previously reviewed and approved by the governance committee and the independent directors' continued independence was confirmed.

During the Year, the Company co-invested in a mortgage investment with a total gross commitment of \$55.0 million, where one independent director of the Company holds a minority interest in the borrower. The Company's share of the commitment is \$27.0 million and has been fully advanced as at December 31, 2015. The investment was reviewed and approved by the Board of Directors, with the conflicted director abstaining, in conformity with the Company's conflict review policy.

In addition to the above-related party transactions, the Company has transacted with other entities managed by the Manager. As at December 31, 2015, 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 \$570.3 million (December 31, 2014 – \$566.8 million). During the Year, the Company, along with its related parties, funded \$319.9 million in co-invested gross mortgage investments and received repayments of \$337.7 million. As at December 31, 2015, the Company's share in these gross mortgage investments is \$401.8 million (December 31, 2014 – \$423.3 million). Included in these amounts is a gross mortgage investment of \$9.8 million (December 31, 2014 – \$8.9 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 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, 2015

## 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 the 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: (i) payment default by a borrower; (ii) whether security of the mortgage is 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).

# Management's Discussion and Analysis

For the year ended December 31, 2015

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.

## 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, 2015.

### Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company's non-executive directors are participating in the Plan, which allows the directors to elect to receive their compensation in the form of DSUs. The benefit resulting from the grant of DSUs under the Plan is recorded in profit and loss when awarded. DSUs granted are included within accrued expenses based on the fair market value of the DSUs on the date of grant and are subsequently measured at each reporting date at their fair market value with changes in the carrying amount recognized in profit and loss.

## 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) Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. One of the amendments was made to clarify the disclosure of information "elsewhere in the interim financial report" under IAS 34 Interim Financial Reporting. The amendment will apply for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its financial statements.

### (ii) Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its financial statements.

# Management's Discussion and Analysis

For the year ended December 31, 2015

## (iii) 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 mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions with early adoption permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

## (iv) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall within the scope of other IFRSs. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with earlier application permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue: Barter Transactions Involving Advertising Services. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

## OUTSTANDING SHARE DATA

As at February 23, 2016, the Company's authorized capital consists of an unlimited number of common shares, of which 31,451,154 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 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.



# Management's Discussion and Analysis

For the year ended December 31, 2015

## 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 and the credit facility. The Company routinely forecasts cash flow sources and requirements to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities as at December 31, 2015, including expected interest payments:

December 31, 2015	Carrying value	Contractual cash flow	Within a year
Accounts payable and accrued expenses	\$ 496	\$ 496	\$ 496
Dividends payable	1,573	1,573	1,573
Due to Manager	41	41	41
Mortgage funding holdbacks	250	250	250
Prepaid mortgage interest	233	233	233
Credit facility <sup>1</sup>	164,366	167,282	167,282
	166,959	169,875	169,875
Unadvanced gross mortgage commitments <sup>2</sup>	–	102,182	102,182
	\$ 166,959	\$ 272,057	\$ 272,057

1. Includes interest based upon current prime interest rate plus 1.0% on the credit facility assuming the outstanding balance is not repaid until its maturity in June 2016.

2. Unadvanced gross mortgage commitments include syndication commitments from third party investors totaling \$28.9 million.

As at December 31, 2015, the Company has an unutilized credit facility balance of \$10.5 million (December 31, 2014 – \$27.0 million), based on the available borrowing base as at December 31, 2015. The available borrowing base can be increased by \$5.2 million, being the credit facility limit, subject to terms of the credit agreement. 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 \$102.2 million of the unadvanced mortgage commitments is \$28.9 million (December 31, 2014 – \$29.3 million) relating to the Company's syndication partners. The Company expects the syndication partners to fund their obligation.

## 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. As a result, the fair value of mortgage investments is based on Level 3 inputs.

# Management's Discussion and Analysis

For the year ended December 31, 2015

## Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, 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. As a result, the fair value of mortgage syndication liabilities is based on Level 3 inputs.

## 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, 2015, \$44.7 million of mortgage investments bear interest at variable rates, however of this amount, \$43.1 million of mortgage investments include a "floor rate" to protect from negative exposure and one mortgage investment totalling \$1.6 million bears interest at a variable rate without 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 \$223 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 negative exposure.

The Company is exposed to interest-rate risk on the credit facility, which has a balance of \$164.4 million as at December 31, 2015. Based on the outstanding balance of the credit facility as at December 31, 2015, a 0.50% decrease in interest rates, with all other variables constant, would increase net income by \$822 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.

# Management's Discussion and Analysis

For the year ended December 31, 2015

## (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:

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- (ii) ensuring 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, 2015 is the carrying values of its net mortgage investments and interest receivable, which total \$456.3 million (December 31, 2014 – \$433.7 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 is efficiently utilized.

## 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, 2015.

As at December 31, 2015, 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, 2015.

During 2015, the Manager implemented a new mortgage administration and portfolio management software. This new software allows the Manager to monitor the portfolio in real-time. The Manager has assessed that the new software did not cause significant or material changes to the design of internal controls over financial reporting.

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, 2015.

# Management's Discussion and Analysis

For the year ended December 31, 2015

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 Internal Control –Integrated 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, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## ADDITIONAL INFORMATION

### Phone

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

Shareholders who wish to enroll in the dividend reinvestment plan 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](http://www.sedar.com); or the Company's website at [www.timbercreekseniormic.com](http://www.timbercreekseniormic.com).

### Mail

Write to the Company at:

Timbercreek Senior Mortgage Investment Corporation  
Attention: Corporate Communications  
25 Price Street  
Toronto, Ontario M4W 1Z1