November 14, 2013

# Management's Discussion and Analysis

# Timbercreek Senior Mortgage Investment Corporation

Three months and nine months ended September 30, 2013 and 2012

Timbercreek
Asset Management

# Management's Discussion and Analysis

Three months and nine months ended September 30, 2013 and 2012

## FORWARD-LOOKING STATEMENTS

### Caution regarding forward-looking statements

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") and its consolidated financial position and results of operations for the nine months ended September 30, 2013. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months and nine months ended September 30, 2013, which have been prepared in accordance with IFRS. 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. Historical results and percentage relationships contained in the Company's unaudited condensed consolidated interim financial statements and MD&A related thereto, including trends that might appear, should not be taken as indicative of future operations.

### Forward-looking statement advisory

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.

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

This MD&A is dated November 14, 2013. 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.timbercreek.com. Additional information about the Company, including its Annual Information Form ("AIF"), can be found on the SEDAR website at www.sedar.com.

## BUSINESS OVERVIEW

Timbercreek Senior Mortgage Investment Corporation (the "Company") was incorporated under the Canada Business Corporations act by articles of incorporation dated December 1, 2011 authorized to issue an unlimited number of Class A, Class B, Class I, Class J and voting shares. On September 13, 2013, in connection with the Transition, as defined below, the Company filed articles of amendment with the Ministry of Government Services of Ontario, effective as of September 13, 2013 (the "Effective Date"), to amend, among other things, certain provisions of the articles of Company related to the rights attached to the existing classes of shares (including the provision of a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption")), and provide for the creation of a new class of common shares for which all existing classes of redeemable shares will be exchanged on or about November 30, 2013.

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

The Company began operations on January 19, 2012 upon successful completion of its initial public offering.

The fundamental investment objectives of the Company are to:

- Preserve shareholder capital of the Company; and
- Provide shareholders with a stable stream of monthly dividends.

The Company intends on meeting its investment objectives by investing in a diversified portfolio of mortgage investments, consisting primarily of conventional mortgage loans secured directly by residential (including multi-family residential and retirement homes), office, retail and industrial real property across Canada, primarily located in large urban markets and surrounding areas.

The Company's Class A shares are publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "MTG"; whereas Class B, Class I and Class J shares are privately held and there is no market through which these shares may be sold.

The Company has instituted a dividend reinvestment plan ("DRIP") available to Class A shareholders. Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional Class A shares. The Class A shares are issued from treasury at a price of 95% of the daily volume weighted average closing price on the TSX for the 10 trading days preceding payment, the price of which will not be less than the net redemption value per Class A share. 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.

## 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 IFRS, along with a Management's Discussion and Analysis.

Also effective September 13, 2013, 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 and administrative services of the Company's mortgage assets.

Additionally, Messrs. Ugo Bizzarri, Andrew Jones and Ed Boomer have been elected as additional directors of the Company.

The Company will redeem 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 redemption payable of approximately $51.5 million will be paid on or before November 30, 2013.

In connection with the Transition, the Company has incurred estimated total costs of $3,981,943 relating to the Transition, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other costs. Timbercreek Asset Management Inc. in its capacity as the Manager elected to assume responsibility for $250,000 of costs relating to the Transition.

## BASIS OF PRESENTATION

As a part of the Transition to the Public Company Regime, the Company adopted IFRS as issued by the IASB as its basis of financial reporting commencing with the audited annual financial statements for the year ended December 31, 2012 and the period from December 1, 2011 (date of formation) to December 31, 2011. Financial data provided in this MD&A, for the three months and nine months ended September 30, 2013 and 2012, has been prepared in accordance with IFRS.

## NON-IFRS MEASURES

The Company prepares and releases audited annual financial statements and unaudited condensed consolidated interim 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 investors and to evaluate the Company's performance. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of the Company's performance.

- Income from operations – represents net income earned by the Company before financing costs;
- Income from operations per share – calculated by allocating income from operations to each class of shares divided by the weighted average number of shares for that class for the stated period;
- Expense ratio – represents total expenses (excluding financing costs and transition related costs) for the stated period expressed as an annualized percentage of the average of the beginning and ending balances of net mortgage investments;
- Average mortgage investment – represents the total net mortgage investments divided by the total number of mortgage investments at the reporting date;
- Weighted average interest rate – represents the weighted average interest rate on the net mortgage investments;
- Average lender fees – represents the cash lender fees received as a percentage of new mortgage investments funded during the period; and
- Turnover ratio – represents total repayments during the period expressed as a percentage of the monthly weighted average net mortgage investments for the period.

Readers are cautioned not to view non-IFRS measures as alternatives to financial measures calculated in accordance with IFRS.

## RECENT DEVELOPMENTS AND OUTLOOK

During the nine months ended September 30, 2013 (the "Period"), the Manager continued to view Canadian investment-grade real estate fundamentals as being stable and sustainable, contributing to an attractive lending environment.

Although most Canadian public REITs have traded towards more modest valuations over the past quarter, thus reducing their ability to raise new capital, the demand for investment-grade commercial real estate from other institutional and private investors has quickly become more competitive. The result has been continued strength in asset valuations.

In the commercial mortgage industry we continue to interact with quality borrowers that own investment-grade real assets. Though many of these borrowers have been presented with multiple low-cost financing options, these options often do not meet their requirements due to the more rigid policies of institutional lenders, and continued uncertainty in the banking sector as a result of new Basel III risk-weighted capital requirements. As well, the Canadian securitization market has remained very quiet, with effectively no issuance of Commercial Mortgage Backed Securities ("CMBS") in 2013. The net result of these factors is a large gap in the supply-side of the credit market for high quality loans. This gap is being increasingly filled by non-bank lenders.

With the recent rise in the medium-term Canada bond yields, the gap in cost-of-funds between institutional lenders and non-bank lenders has narrowed slightly making the non-bank lenders more competitive in general. In addition, there is little competition for the Company's targeted loans from other non-bank lenders as most non-bank lenders have a higher cost of capital. Over the past six months, limited new capital has been raised by the public participants in the Canadian non-bank lending universe in general. Those issuers that have raised new capital have a low enough targeted yield to compete with the Company on its targeted loans; however, the amount of capital raised by these issuers has not been substantial enough to materially impact the supply side of the lending market.. As a result of these factors, deal flow and lending opportunities have been abundant. The Manager is very comfortable that the Company can continue to meet its investment objectives in this environment, particularly as the Company is able to take advantage of the strategic relationship with Timbercreek Mortgage Investment Corporation ("TMIC") to offer flexible lending solutions to qualified borrowers.

Given the current availability of high quality loans and general market trends observed by the Manager, there has been no need to modify the Company's Asset Allocation Model ("AAM") during the Period. The Manager and the Mortgage Advisory Committee ("MAC") continue to place emphasis on investments secured by cash-flowing real estate assets, a geographically diversified portfolio and larger, individual mortgage investments secured by institutional quality real estate assets. This strategy is expected to continue throughout 2013 and beyond.

In summary, the Company has been competitive and successful in establishing itself as a market leader in the non-bank senior mortgage sector in Canada. The Manager believes this success is a result of being conservative and selective in making investments that meet the Company's investment objectives, while at the same time focusing on providing responsive, flexible and unique lending solutions to qualified borrowers.

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## FINANCIAL HIGHLIGHTS

During the Period, the Company grew its net assets attributable to holders of redeemable shares by $44.7 million to $340.8 million as at September 30, 2013. Overall, the Company's net assets have grown by approximately 15.1% since December 31, 2012. The Company's continued growth has meant that larger individual mortgage investments are compatible with the Company's investment strategy and AAM, thus increasing the universe of potential investments.

*($000's, except per share and other non-financial data)*

| STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (as at) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 | Year ended December 31, 2012 |
|---|---|---|---|---|---|
| Mortgage investments, including mortgage syndications | $ 500,132 | $ 323,888 | $ 500,132 | $ 323,888 | $ 373,929 |
| Mortgage investments, net of mortgage syndications | $ 392,180 | $ 274,253 | $ 392,180 | $ 274,253 | $ 332,310 |
| Total assets | $ 504,006 | $ 350,794 | $ 504,006 | $ 350,794 | $ 376,067 |
| Credit facility | $ 46,198 | $ – | $ 46,198 | $ – | $ 33,602 |
| Net assets attributable to Class A, B, I & J shareholders | $ 340,785 | $ 296,815 | $ 340,785 | $ 296,815 | $ 296,057 |
| **FINANCIAL INFORMATION (for the period ended)** | | | | | |
| Dividends per share:* | | | | | |
| Class A | $ 0.15 | $ 0.15 | $ 0.45 | $ 0.40 | $ 0.55 |
| Class B | $ 0.16 | – | $ 0.49 | – | – |
| Class I | $ 0.16 | $ 0.16 | $ 0.49 | $ 0.16 | $ 0.32 |
| Class J | $ 0.16 | $ 0.16 | $ 0.47 | $ 0.21 | $ 0.36 |
| **MORTGAGE INVESTMENTS INFORMATION** | | | | | |
| Net mortgage investments ** | $ 392,821 | $ 274,818 | $ 392,821 | $ 274,818 | $ 332,999 |
| Average mortgage investment * | $ 6,892 | $ 10,570 | $ 6,892 | $ 10,570 | $ 10,406 |
| Weighted average interest rate * | 6.71% | 6.65% | 6.71% | 6.65% | 6.66% |
| Average lender fee * | 1.18% | 0.74% | 0.85% | 0.70% | 0.72% |
| Turnover ratio * | 13.58% | 21.12% | 55.85% | 42.89% | 52.61% |

* Refer to Non-IFRS Measures section

** Net mortgage investments represent total mortgage investments net of non-recourse mortgage syndication liabilities and before adjustment for interest receivable and unamortized lender fees. For analysis purposes, this measure has been used throughout this MD&A, unless specified otherwise.

# Management's Discussion and Analysis (cont'd)

## Three months and nine months ended September 30, 2013 and 2012

### For the three months ended September 30, 2013 ("Q3 2013") and September 30, 2012 ("Q3 2012")

- During Q3 2013, the Company advanced 13 new mortgage investments (Q3 2012 – 10) totaling $47.4 million (Q3 2012 – $132.9 million), had additional advances on existing mortgage investments totaling $5.5 million (Q3 2012 – $3.8 million) and received full repayments on 10 mortgage investments (Q3 2012 – 4) and partial pay downs totaling $52.8 million (Q3 2012 – $49.7 million), resulting in net mortgage investments of $392.8 million (September 30, 2012 – $274.8 million) as at September 30, 2013.
- Net interest income earned by the Company in Q3 2013 was $7.4 million (Q3 2012 – $4.3 million), an increase of $3.1 million, or 73.4%, from the same period last year. The increase from the same period last year is a result of fully deploying the equity raised from multiple equity offerings throughout 2012 into mortgage investments.
- During Q3 2013, the Company received non-refundable lender fees of $0.6 million (Q3 2012 – $1.0 million) or 1.2% (Q3 2012 – 0.7%) of new mortgage investments funded in Q3 2013.
- During Q3 2013, the Company generated income from operations of $2.4 million (Q3 2012 – $2.9 million) or per Class A, Class B, Class I and Class J share of $0.06, $0.07, $0.05 and $0.10 (Q3 2012 – $0.09, nil, $0.11 and $0.10), respectively. The income from operations in Q3 2013 has decreased from Q3 2012, as the Company incurred a one-time cost of $3.7 million relating to the Company's transition from the Canadian securities regulatory regime for investment funds to the regulatory regime for non-investment fund reporting issuers (the "Public Company Regime").
- During Q3 2013, the Company paid dividends of $0.15 per Class A share for a total of $5.5 million (Q3 2012 – $0.15; $4.6 million), $0.16 per Class B share for a total of $0.04 million (Q3 2012 –nil; nil), $0.16 per Class I share for a total of $0.08 million (Q3 2012 – $0.16; $0.06 million) and $0.16 per Class J share for a total of $0.02 million (Q3 2012 – $0.16; $0.08 million).

### For the nine months ended September 30, 2013 (the "Period") and September 30, 2012 ("YTD 2012")

- The Company completed a public offering of 5,916,446 Class A shares for gross proceeds of $58.3 million (YTD 2012 – 30,812,582; $306.0 million). The Company also completed non-brokered private placements of 220,559 Class B shares (YTD 2012 – nil; nil), for gross proceeds of $2.2 million, 184,000 Class I shares, for gross proceeds of $1.8 million (YTD 2012 – 344,700; $3.4 million) and 31,250 Class J shares for gross proceeds of $0.3 million (YTD 2012 – 478,100; $4.8 million).
- During the Period, the Company advanced 42 new mortgage investments (YTD 2012 – 31) totaling $254.0 million (YTD 2012 – $332.5 million), had additional advances on existing mortgage investments of $19.5 million (YTD 2012 – nil) and received full repayments on 17 mortgage investments (YTD 2012 – 5) and partial pay downs totaling $213.7 million (YTD 2012 – $57.7 million), resulting in net mortgage investments of $392.8 million (September 30, 2012 – $274.8 million) as at September 30, 2013.
- Net interest income earned by the Company for the Period was $20.9 million (YTD 2012 – $7.4 million), an increase of $13.5 million, or 181.1%, from the same period last year. The increase from the same period last year is a result of fully deploying the equity raised from multiple equity offerings through 2012 and 2013 into mortgage investments, along with fees generated from a strong investment turnover experienced by the Company.

- During the Period, the Company received non-refundable lender fees of $2.2 million (YTD 2012 – $2.3 million) or 0.9% (YTD 2012 – 0.7%) of new mortgage investments funded in the Period.
- The Company generated income from operations of $12.7 million (YTD 2012 – $5.0 million) or per Class A, Class B, Class I and Class J share of $0.33, $0.37, $0.36 and $0.38 (YTD 2012 – $0.23, nil, $0.11 and $0.15), respectively.
- The Company paid dividends of $0.45 per Class A share for a total of $16.6 million (YTD 2012 – $0.40; $8.5 million), $0.49 per Class B share for a total of $0.1 million (YTD 2012 – nil; nil), $0.49 per Class I share for a total of $0.2 million (YTD 2012 – $0.16; $0.06 million) and $0.47 per Class J share for a total of $0.1 million (YTD 2012 – $0.21; $0.1 million). The distributions exceed the Company's targeted distribution yield of the 2-Year Government of Canada Bond Yield ("2-Yr GOC") plus 350 basis points.

The Manager continues to be selective and has focused predominantly on mortgage investments that are secured by cash-flowing assets, while still exceeding its targeted return to shareholders.

## ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

### Distributable income

| | Three months ended September 30, 2013 | Nine months ended September 30, 2013 |
|---|---|---|
| Net loss and comprehensive loss | $ (3,941,053) | $ (9,439,948) |
| Less: amortization of lender fees | (725,913) | (1,667,650) |
| Add: one-time Transition related costs | 3,731,943 | 3,731,943 |
| Add: lender fees received during the period | 560,216 | 2,162,300 |
| Add: amortization of financing costs | 131,852 | 395,024 |
| Add: issuance cost of redeemable shares | 59,928 | 3,297,819 |
| Add: dividends to shareholders | 5,643,633 | 17,022,848 |
| Distributable income | 5,460,606 | 15,502,336 |
| Dividends to shareholders | (5,643,633) | (17,022,848) |
| (Over)/under distributions | (183,027) | (1,520,512) |
| | | |
| Turnover | 13.58% | 55.85% |
| Revolver balance at period end ($000) | 46,198 | 46,198 |
| Revolver limit ($000) | 130,000 | 130,000 |
| Revolver utilization of net mortgage investments at period end | **12%** | **12%** |

# Management's Discussion and Analysis (cont'd)

## Three months and nine months ended September 30, 2013 and 2012

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

The Board of Directors have set a distribution 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, distributions. As noted above in Recent Developments and Outlook, both the Manager and the Board remain very comfortable with the broader market fundamentals.

When evaluating the specific performance metrics of the Company's ability to sustain, and ultimately grow distributions, a number of criteria were noted by the Board. Three of those criteria are addressed below.

### Leverage:

The Company's business model contemplates utilizing its credit facility to employ a conservative amount of leverage in order to achieve its targeted distribution. The current target is a ratio equal to approximately 20-25% of the Company's assets. At Period end, the Company's leverage was 12% of net mortgage investment. There are a number of factors that have caused leverage to be  below target, including additional successful offerings of share capital, the requirement to maintain liquidity in order to meet the terms of the Company's Transition, and a substantially higher than expected repayment rate of the Company's mortgage investments.

### Portfolio Turnover:

Portfolio turnover (i.e. the repayment of mortgages) – while inherently a validation of a lenders exit strategy – also impacts distributions by virtue of causing "cash drag". As noted above, the portfolio turnover year-to-date is 56%. The Company's long-term expectation is 30% per annum.

### Service Fees:

As a result of the Company's Transition, its requirement to pay Service Fees has ended. The Company paid Service Fees equal to $805,292 through September 30th, 2013.

The Board and the Manager believe that, in light of the factors noted above, an over-distribution of $1,520,512 through September 30, 2013, representing 0.44% of net assets of the Company, is appropriate and preferable to introducing short term volatility in the distributions of the Company.

# Management's Discussion and Analysis (cont'd)

## Three months and nine months ended September 30, 2013 and 2012

### Statements of loss and comprehensive loss

| | Three months ended September 30, 2013 | 2012 | % Change | Nine months ended September 30, 2013 | 2012 | % Change |
|---|---|---|---|---|---|---|
| Net interest income | $ 7,377,412 | $ 4,254,603 | 73.4% | $ 20,908,582 | $ 7,437,312 | 181.1% |
| Expenses | (4,953,007) | (1,339,425) | 269.8% | (8,220,381) | (2,443,193) | 236.5% |
| Income from operations | 2,424,405 | 2,915,178 | (16.8%) | 12,688,201 | 4,994,119 | 154.1% |
| Financing costs: | | | | | | |
| Interest on credit facility | (661,897) | (246,298) | 168.7% | (1,807,482) | (544,784) | 231.8% |
| Issuance costs of redeemable shares | (59,928) | (6,425,898) | (99.1%) | (3,297,819) | (13,402,375) | (75.4)% |
| Dividends to holders of redeemable shares | (5,643,633) | (4,754,496) | 18.7% | (17,022,848) | (8,633,478) | 97.2% |
| **Net loss and comprehensive loss** | **$ (3,941,053)** | **$ (8,511,514)** | **(53.7%)** | **$(9,439,948)** | **$(17,586,518)** | **(46.3%)** |

### Net interest income[1]

The Company earned net interest income for the three and nine months ended September 30, 2013 of $7.4 million and $20.9 million, respectively. The significant increase in income was due to the Company increasing its portfolio of mortgage investments by approximately $118.0 million, or 42.9%, from September 30, 2012 to September 30, 2013. Net interest income is made up of the following:

#### (a) Interest income

For the three and nine months ended September 30, 2013, the Company earned $6.6 million and $19.1 million (Q3 2012 – $3.9 million; YTD 2012 – $6.8 million) in interest income on the net mortgage investments, respectively. The weighted average interest rate on the mortgage portfolio increased slightly over the Period, to 6.71% at September 30, 2013 from 6.66% at December 31, 2012. While the average mortgage investment decreased over the Period, the number of mortgage investments increased to 57 at September 30, 2013 (December 31, 2012 – 32).

#### (b) Lender fee income

During the three and nine months ended September 30, 2013, the Company received non-refundable lender fees of $0.6 and $2.2 million (Q3 2012 – $1.0 million; YTD 2012 – $2.3 million), or 1.2% and 0.9% (Q3 2012 – 0.7%; YTD 2012 – 0.7%) of new mortgage investments funded in the respective periods. 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 and nine months ended September 30, 2013, $0.7 million and $1.7 million (Q3 2012 – $0.3 million; YTD 2012 – $0.5 million) of non-refundable lender fees were amortized to lender fee income. The

[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.

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, unlike other competing mortgage investment corporations, ensuring management interests are aligned with the Company.

### (c) Other income

For the three and nine months ended September 30, 2013, the Company earned $0.04 million and $0.1 million (Q3 2012 – $0.05 million; YTD 2012 – $0.2 million) in other income. Other income includes administration and draw fees earned on mortgage and loan fundings, prepayment penalties and exit fees earned on mortgage repayments and other miscellaneous fees. The Manager does not retain any portion of administration and draw fees or exit fees, thus maximizing the income of the Company.

## Expenses

For the three and nine months ended September 30, 2013, the Company's expense ratio[2] was 1.2% and 1.7% (Q3 2012 – 2.3%; YTD 2012 – 2.4%). As the Company continues to grow its mortgage investment portfolio, its expense ratio will decrease as several of the operating costs of the Company do not increase in proportion to the size of the Company.

## 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 reflected as mortgage syndication liabilities related to syndication mortgage loans that are held by third parties.

For the three and nine months ended September 30, 2013, the Company incurred management fees of $1.0 million and $3.0 million (Q3 2012 – $0.8 million; YTD 2012 – $1.6 million). The management fee has increased due to the increase in net assets attributable to holders of redeemable shares of $44.0 million from September 30, 2012 to September 30, 2013.

## Servicing fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay service fees to the brokers effective for the quarter ended September 30, 2013. Prior to Q3 2013, the Company was paying each registered dealer a servicing fee equal to 0.50% annually of the net redemption value per Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. For the three and nine months ended September 30, 2013, the Company incurred servicing fees of nil and $0.8 million (Q3 2012 – $0.3 million; YTD 2012 – $0.5 million) for Class A shares.

As noted above, prior to Q3 2013, the Company was paying each registered dealer a servicing fee equal to 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 , commencing on September 30, 2012. For the three and nine months

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[2] Defined in Non-IFRS Measures section.

ended September 30, 2013, the Company incurred servicing fees of nil and $0.01 million (Q3 2012 – $0.01 million; YTD 2012 – $0.01 million) for Class J shares.

### Transition related costs

In connection with the Transition, the Company has incurred a one-time expense of $3.7 million, which includes soliciting dealer fees of $0.7 million, soliciting broker fees of $2.9 and audit fees, legal fees and other related costs of $0.1 million.

### General and administrative

For the three and nine months ended September 30, 2013, the Company incurred general and administrative expenses of $0.2 million and $0.7 million (Q3 2012 – $0.2 million; YTD 2012 – $0.4 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 portfolio. As the Company increases its net assets, operating expenses continue to decrease, equating to 0.3% of average mortgage investments (annualized) for the Period (YTD 2012 – 0.4%).

### Interest on credit facility

Financing costs include interest paid on amounts drawn on the credit facility from time-to-time throughout 2013, 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 Period included interest on the credit facility of $1.8 million (YTD 2012 – $0.5 million).

### Issuance costs of redeemable shares

As the Class A, B, I and J shares are classified as liabilities under IFRS, the issuance costs associated with periodic equity offerings are considered to be financing costs and are recognized in profit and loss. For the Period, the Company incurred issuance costs of $3.3 million (YTD 2012 – $13.4 million) relating to the issuance of Class A, B, I and J shares for total gross proceeds of $62.6 million (YTD 2012 – $314.2 million). The issuance costs include agent's commissions, legal, professional and other costs relating to the offering.

### Dividends to holders of redeemable shares

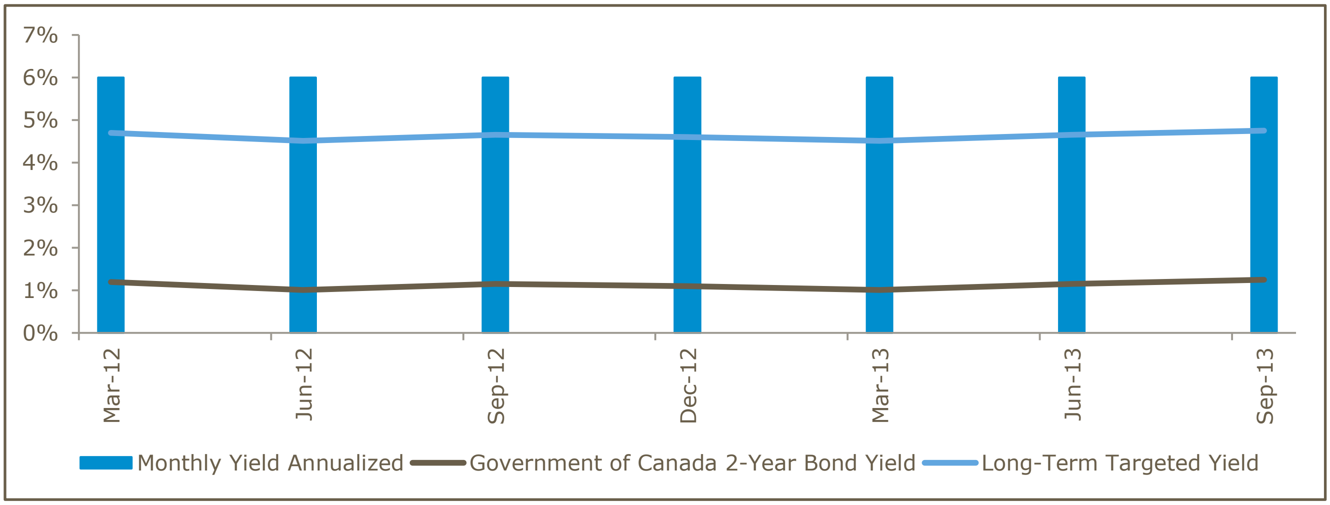
The Company intends to pay dividends to holders of redeemable shares on a monthly basis within 15 days following the end of each month. Below is a summary of the dividends to holders of redeemable shares for the three and nine months ended September 30, 2013 and 2012.

| | Three months ended September 30, 2013 | | Nine months ended September 30, 2013 | |
|---|---|---|---|---|
| | Dividends per share | Total | Dividends per share | Total |
| Class A | $ 0.15 | $ 5,506,003 | $ 0.45 | $ 16,608,338 |
| Class B | 0.16 | 35,569 | 0.49 | 106,922 |
| Class I | 0.16 | 81,599 | 0.49 | 208,294 |
| Class J | 0.16 | 20,462 | 0.47 | 99,294 |

| | Three months ended September 30, 2012 | | Nine months ended September 30, 2012 | |
|---|---|---|---|---|
| | Dividends per share | Total | Dividends per share | Total |
| Class A | $ 0.15 | $ 4,623,804 | $ 0.40 | $ 8,477,925 |
| Class B | – | – | – | – |
| Class I | $ 0.16 | $ 55,152 | $ 0.16 | $ 55,152 |
| Class J | $ 0.16 | $ 75,540 | $ 0.21 | $ 100,401 |

The current distribution of 6% on Class A shares (based on $10 per share) is in excess of the Company's targeted yield of 4.61%.

The following chart depicts the annualized return based on dividends paid on Class A shares, in relation to the 2-Yr GOC and the Company's targeted yield of the 2-Yr GOC plus 350 basis points.[3]




[3] The annualized return, 2-Yr GOC and long-term targeted yield are calculated on a monthly basis, but are presented above at each quarter end.

## STATEMENT OF FINANCIAL POSITION

### Mortgage investments[4]

The balance of mortgage investments is as follows:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Mortgage investments, including mortgage syndications | $ 500,655,301 | $ 374,599,297 |
| Non-recourse mortgage syndication liabilities | (107,834,086) | (41,600,000) |
| | 392,821,215 | 332,999,297 |
| Interest receivable | 2,165,607 | 1,622,708 |
| Unamortized lender fees | (2,807,050) | (2,312,400) |
| | **$ 392,179,772** | **$ 332,309,605** |

During the Period, the Company advanced 42 new mortgage investments (YTD 2012 – 31) totaling $254.0 million (YTD 2012 – $332.5 million), had additional advances on existing mortgage investments of $19.5 million (YTD 2012 – nil) and received full repayments on 17 mortgage investments (YTD 2012 – 5) and partial pay downs totaling $213.7 million (YTD 2012 – $57.7 million), resulting in net mortgage investments of $392.8 million (September 30, 2012 – $274.8 million) as at September 30, 2013, or a portfolio turnover rate of 55.9% (YTD 2012 – 42.9%). As at September 30, 2013, the average mortgage investment was approximately $6.9 million (September 30, 2012 – $10.5 million). The decrease in average mortgage investment from the same period last year is attributable to more than doubling the number of mortgage investments in the Company's mortgage investment portfolio. Further, the new mortgage investments for the Period equate to approximately 64.7% of the Company's mortgage investments at Period end (September 30, 2012 – 121.0%).

The weighted average interest rate on the mortgage investments at September 30, 2013 was slightly higher at 6.71% (December 31, 2012 – 6.66%).The Company enters into certain mortgage participation agreements with various investors, using senior and subordinated participation, whereby the investors take the senior position and the Company retains the subordinated first position. These agreements provide an option to the Company to repurchase the senior position, not the obligation, at a purchase price equal to the outstanding principal amount of the investor's proportionate share together with all accrued interest. During the Period, the non-recourse mortgage syndications have increased to $108.0 million (December 31, 2012 – $41.6 million), as the Company is expanding its relationships with various investors. This provides the Company with flexibility through the ability to buy-back the existing investments at a future date if desired.

The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. As at September 30, 2013, no impairment losses have been recorded.

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[4] For analysis purposes, "mortgage investments" and its component parts are discussed net of mortgage syndications to provide the reader with a more representative reflection of the Company's performance.

As at September 30, 2013, the Company's mortgage investments comprised of 57 mortgage investments (December 31, 2012 – 32) which were allocated across the following categories:

### (a) Region[5]

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | # of Loans | % of Portfolio | # of Loans | % of Portfolio |
| ON | 31 | 59.7% | 19 | 63.7% |
| QC | 7 | 16.8% | 5 | 21.8% |
| BC | 4 | 6.6% | 2 | 1.7% |
| AB | 9 | 11.9% | 3 | 10.3% |
| SK | 2 | 0.6% | 3 | 2.5% |
| OT | 2 | 2.5% | 0 | 0.0% |
| MB | 1 | 0.2% | 0 | 0.0% |
| NS | 1 | 1.7% | 0 | 0.0% |
| | **57** | **100.0%** | **32** | **100.0%** |

In 2013, the Company continued to focus its efforts on diversifying the mortgage investment portfolio, with its greatest concentration in Canada's largest provinces. As at September 30, 2013 95.0% (December 31, 2012 – 97.5%)) of the mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. During the Period, the average loan size decreased, providing the Company with less exposure to any one particular mortgage. The Company has continued to maintain significant exposure to Ontario as it has benefited from sourcing mortgages secured by high-quality, cash flowing multi-family and office assets in good markets, with multiple repeat borrowers with proven track records.

### (b) Maturity[5]

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | # of Loans | % of Portfolio | # of Loans | % of Portfolio |
| Maturing 2013 | 2 | 1.2% | 7 | 12.0% |
| Maturing 2014 | 18 | 22.4% | 14 | 29.5% |
| Maturing 2015 | 29 | 55.6% | 10 | 46.5% |
| Maturing 2016 | 8 | 20.8% | 1 | 12.0% |
| | **57** | **100.0%** | **32** | **100.0%** |

The Company's portfolio turnover rate for the Period was strong at 55.9% (December 31, 2012 – 52.6%). 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

[5] Percentages are calculated on net mortgage investments.

average term to maturity as at September 30, 2013 is 2.4 years (December 31, 2012 – 3.1 years), well situated within the portfolio's target maturity of 2 – 3 years.

### (c) Asset Type[5]

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | # of Loans | % of Portfolio | # of Loans | % of Portfolio |
| Retail | 7 | 12.8% | 4 | 8.7% |
| Multi-family residential | 19 | 33.9% | 12 | 40.0% |
| Office | 6 | 10.1% | 5 | 19.1% |
| Retirement | 4 | 11.3% | 2 | 10.4% |
| Industrial | 5 | 7.4% | 2 | 3.0% |
| Hotels | 2 | 4.6% | 1 | 0.9% |
| Unimproved land | 5 | 5.3% | 1 | 4.0% |
| Other-residential | 4 | 11.2% | 3 | 13.2% |
| Single-residential | 3 | 1.8% | 2 | 0.7% |
| Self-storage | 2 | 1.6% | 0 | 0.0% |
| | **57** | **100.0%** | **32** | **100.0%** |

The Company has developed a lending niche predominantly in cash-flowing assets, while specifically targeting multi-family 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 loan.

### (d) Interest Rate[5]

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | # of Loans | % of Portfolio | # of Loans | % of Portfolio |
| 5.00% or lower | 3 | 7.8% | 0 | 0.0% |
| 5.01%–5.49% | 3 | 3.8% | 0 | 0.0% |
| 5.50%–5.99% | 3 | 10.1% | 5 | 27.9% |
| 6.00%–6.49% | 8 | 8.3% | 4 | 8.8% |
| 6.50%–6.99% | 6 | 13.5% | 6 | 23.2% |
| 7.00% or greater | 34 | 56.5% | 17 | 40.1% |
| | **57** | **100.0%** | **32** | **100.0%** |

The weighted average interest rate, excluding lender fee income, on the mortgage investments at September 30, 2013 was 6.71% (December 31, 2012 – 6.66%). The weighted average interest rate was greater than the Company's target return for the Period of 4.61% (December 31, 2012 – 4.61%), equal to the 2-Yr GOC plus 350 basis points.

### (e) Loan-to-value[5]

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | # of Loans | % of Portfolio | # of Loans | % of Portfolio |
| 55% or less | 28 | 48.1% | 9 | 36.6% |
| 56%–60% | 5 | 8.7% | 4 | 10.3% |
| 61%–65% | 19 | 32.7% | 17 | 38.9% |
| 66%–70% | 5 | 10.5% | 2 | 14.2% |
| | **57** | **100.0%** | **32** | **100.0%** |

The loan-to-value on the mortgage portfolio at September 30, 2013 was 45.1% (December 31, 2012 – 53.6%), well below the AAM's ceiling of 70%.

## Net working capital

The net working capital decreased by $2.0 million to $3.0 million at September 30, 2013 from $1.0 million at December 31, 2012, mainly due to an increase in accounts payable and accrued expenses of $3.2 million. The accounts payable and accrued expenses include accruals for the Transition of $3.5 million. The Company has available its credit facility to manage its working capital while ensuring idle cash is minimized.

## Credit facility

The Company has a credit facility agreement with a syndicate of lenders (the "Syndicate") in an amount of up to $130 million (the "Credit Facility"), bearing interest at either the prime rate of interest plus 1% or bankers' acceptances ("BA") with a stamping fee of 2% of the face amount of such BA. The Company has also an option to increase the limit by another $60 million, subject to certain terms and conditions. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The Company intends to utilize leverage representing approximately 30% of the aggregate value of assets of the Company at any time, with the remaining portion of the Credit Facility reserved for general working capital purposes. The Credit Facility is secured by a general security agreement over the Company's assets, and expires in March 2014. At September 30, 2013, $55.2 million (December 31, 2012 – $37.5 million) was outstanding on the Credit Facility and is offset against cash and cash equivalents of $8.8 million (December 31, 2012 – $3.2 million).

In July, 2013, the Company received approval from the Syndicate to amend certain terms of the Credit Facility agreement to provide the Company with additional borrowing flexibility along with providing a $25.0 million bulge. The bulge will expire on December 30, 2013.

As at September 30, 2013, there were $0.2 million (December 31, 2012 – $0.7 million) in unamortized financing costs related to the structuring of the Credit Facility, which are netted against the Credit Facility. For the three months and nine months ended September 30, 2013, the Company has amortized $0.1 million and $0.4 million respectively, to interest expense using the effective interest rate method.

### Net assets attributable to holders of redeemable shares

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem the shares for cash or another financial asset, to be classified as a financial liability. The Company's Class A, Class B, Class I and Class J shares do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities. In addition, the dividends and issuance costs related to these shares have also been reclassified as financing costs in the statement of comprehensive loss.

During the Period, the Company completed a public offering of 5,916,446 Class A shares for gross proceeds of $58.3 million. The Company also completed non-brokered private placements of 220,559 Class B shares, for gross proceeds of $2.2 million, an offering of 184,000 Class I shares, for gross proceeds of $1.8 million and an offering of 31,250 Class J shares, for gross proceeds of $0.3 million.

For the Period, 120,233 (2012 – 18,191) Class A shares were issued under the DRIP, using reinvested dividends of $0.6 million (2012 – nil), whereas 53,340 Class A shares were acquired from the market under the DRIP.

### Normal course issuer bid

On June 6, 2013, the Company received the approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 3,709,327 Class A shares, representing approximately 10% of the Class A shares float on June 4, 2013. Further, the purchases will not, during any 30-day period during the term of the Bid, exceed, in the aggregate, 742,045 Class A shares. The Bid commenced on June 10, 2013, and provides the Company with the flexibility to repurchase Class A shares for cancellation until June 9, 2014, or on such earlier date as the Bid is complete. From June 10, 2013 to September 30, 2013, the Company acquired for cancellation 979,900 Class A shares at a cost of $8,892,717.

# Management's Discussion and Analysis (cont'd)

## Three months and nine months ended September 30, 2013 and 2012

### QUARTERLY FINANCIAL INFORMATION

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

| | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 |
|---|---|---|---|---|---|---|---|
| Net interest income | $ 7,377,412 | $ 6,964,326 | $ 6,566,844 | $ 5,504,018 | $4,254,603 | $ 2,467,619 | $ 715,090 |
| Expenses | (4,953,007) | (1,612,520) | (1,654,854) | (1,333,041) | (1,339,425) | (693,458) | (410,310) |
| Income from operations | 2,424,405 | 5,351,806 | 4,911,990 | 4,170,977 | 2,915,178 | 1,774,161 | 304,780 |
| Financing costs: | | | | | | | |
| Interest on credit facility | (661,897) | (679,404) | (466,180) | (451,253) | (246,298) | (285,470) | (13,016) |
| Issuance costs of redeemable shares | (59,928) | 3,397 | (3,241,288) | (32,547) | (6,425,898) | (199,669) | (6,776,808) |
| Dividends to holders of redeemable shares | (5,643,633) | (5,707,746) | (5,671,469) | (4,757,113) | (4,754,496) | (2,337,452) | (1,541,530) |
| | (6,365,458) | (6,383,753) | (9,378,937) | (5,240,913) | (11,426,692) | (2,822,591) | (8,331,354) |
| **Net loss and comprehensive loss** | **$ (3,941,053)** | **$ (1,031,947)** | **$ (4,466,947)** | **$ (1,069,936)** | **$ (8,511,514)** | **$ (1,048,430)** | **$ (8,026,574)** |

The variations in loss by quarter are directly related to the growth in equity of the Company during this time. Specifically, the Company has raised gross proceeds of approximately $376.9 million since Q1 2012 and the related issuance costs incurred are expensed in profit and loss in the period raised. The proceeds from these offering have been used to fund mortgage investments, the timing of which typically occur around periodic offerings and existing investment maturities, which vary throughout the year. Following each periodic equity offering, the Company is 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 this cash within 60 to 90 days of closing an equity offering.

### RELATED PARTY TRANSACTIONS

As at September 30, 2013, the Company and Timbercreek Mortgage Investment Corporation ("TMIC"), a related party by virtue of common management, have co-invested in several mortgage investments totaling $608.8 million (December 31, 2012 – $392.9 million), which are secured primarily by multi-family residential, office, retirement and other commercial properties. The Company's net share in these investments is $347.8 million (December 31, 2012 – $306.7 million), which included in this amount is a mortgage investment of $7.4 million (December 31, 2012 – $6.8 million) to a limited partnership, which is co-owned by Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), a related party by virtue of common management.

As at September 30, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, a related party by virtue of common management, have co-invested in a mortgage investment secured by a retail property. The Company's share in this mortgage investment is $16.0 million (December 31, 2012 – $24.0 million).

As at September 30, 2013, included in other assets is $3,741,410 which is held by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management, in trust on behalf of the Company.

As part the Transition, the Manager elected to assume responsibility for $250,000 of transaction costs. The amount recorded by the Company has been reduced by this amount.

## 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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The critical accounting estimates and judgments have been set out in detail in note 2 of the Company's audited annual consolidated financial statements for the year ended December 31, 2012.

The estimates deemed to be most significant, due to subjectivity and the potential risk of causing a material adjustment within the next financial year to the carrying amounts of assets and liabilities include the valuation of mortgage investments.

## FUTURE CHANGES IN ACCOUNTING POLICIES

As of November 14, 2013, there have been no new or amended IFRS issued by the IASB since the last update provided by the Company in its financial statements and MD&A for the year ended December 31, 2012, that has an impact on the Company's fiscal years beginning after December 31, 2012. For a detailed description of the Company's accounting policies, refer to note 2 and 3 of the Company's annual audited financial statements for December 31, 2012.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

- The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiary, Timbercreek Senior Mortgage Trust.

- The Company does not have any joint arrangements and concluded that the adoption of IFRS 11 did not impact its financial statements.
- The Company has concluded that the adoption of IFRS 13 resulted in enhanced fair value disclosures relating to financial instruments as detailed in note 12 of the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2013.
- The Company has adopted the amendments to IAS 1 effective January 1, 2013, although it has determined that it did not result in any impact to the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2013.

## OUTSTANDING SHARE DATA

As at November 14, 2013, the Company's authorized capital consists of an unlimited number of Class A, Class B, Class I, Class J shares and voting shares, of which 30,825,108; 186,626; 424,700; 86,250 and 100 are issued and outstanding respectively.

## 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 Class A, B, I and J 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, the Company has the borrowing ability of $130.0 million through its Credit Facility and seeks to maintain a targeted leverage of up to 30% and manage the fluctuations in cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs. Of note, the Credit Facility is available to the Company to assist with funding the Special Redemption planned on or before November 30, 2013.

# Management's Discussion and Analysis (cont'd)

## Three months and nine months ended September 30, 2013 and 2012

The following are the contractual maturities of financial liabilities as at September 30, 2013, including expected interest payments:

| | Contractual cash flows | Within a year | Following year | 3–5 years | Over 5 years |
|---|---|---|---|---|---|
| Credit facility | $ 47,122,390 | $ 47,122,390 | $ – | $ – | $ – |
| Mortgages funding holdbacks | 141,857 | 141,857 | – | – | – |
| Prepaid mortgage interest | 2,442,152 | 2,442,152 | – | – | – |
| Dividends payable | 1,858,966 | 1,858,966 | – | – | – |
| Due to Manager | 12,126 | 12,126 | – | – | – |
| Accounts payable and accrued expenses | 4,615,241 | 4,615,241 | – | – | – |
| Unadvanced mortgage commitments | 33,232,469 | 33,232,469 | – | – | – |
| Net assets attributable to holders of redeemable shares | 51,548,582 | 51,548,582 | – | – | – |
| | **$ 140,973,783** | **$ 140,973,783** | **$ –** | **$ –** | **$ –** |

In connection with the Transition, the Company will fulfill redemption 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. The contractual liability is the net redemption value of individual classes on October 31, 2013 and will be paid to redeeming shareholders on or before November 30, 2013. The remaining equity will be converted to a new class of common shares for which all existing classes of redeemable shares will be exchanged for on or about November 30, 2013. Following the payment of the one-time redemption right, the new common shares of the Company will no longer provide shareholders with a redemption privilege, providing the Company with additional long-term stability.

As at September 30, 2013, the Company's cash position was nil and undrawn credit facility of $83.8 million (December 31, 2012 – $96.4 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations, the Credit Facility and the proceeds raised in subsequent offerings.

## FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

| | Classification | Measurement |
|---|---|---|
| **Financial assets** | | |
| Mortgage investments, including mortgage syndications | Loans and receivables | Amortized cost |
| Restricted cash | Loans and receivables | Amortized cost |
| Other assets | Loans and receivables | Amortized cost |
| **Financial liabilities** | | |
| Credit facility | Other financial liabilities | Amortized cost |
| Non-recourse mortgage syndication liabilities | Other financial liabilities | Amortized cost |
| Prepaid mortgage interest | Other financial liabilities | Amortized cost |
| Mortgage funding holdbacks | Other financial liabilities | Amortized cost |
| Due to Manager | Other financial liabilities | Amortized cost |
| Dividends payable | Other financial liabilities | Amortized cost |
| Accounts payable and accrued expenses | Other financial liabilities | Amortized cost |

Net assets attributable to holders of redeemable shares are carried on the consolidated statements of financial position at net asset value. In total, the interests of the holders are limited to the net assets of the Company.

The fair values of restricted cash, Credit Facility, accounts payable and accrued expenses, mortgage funding holdbacks, dividends payable and due to Manager approximate their carrying amounts due to their short-term nature.

The fair value of mortgage investments approximate to their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

## RISKS

The risks associated with investing in the Company remain as disclosed in Exhibit B of the Management Information Circular dated August 12, 2013.

## RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable.

In light of the Transition to the Public Company Regime, the Company has adopted the *Internal Control – Integrated Framework* published by The Committee of Sponsoring Organizations of the Treadway Commission in the design of its internal control over financial reporting (ICFR) (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*).

In addition, the Company's Audit Committee and Board of Directors provide an oversight role with respect to all public financial disclosures by the Company, and have reviewed and approved this MD&A and the unaudited condensed consolidated interim financial statements as at September 30, 2013.

## ADDITIONAL INFORMATION

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