Management's Discussion and Analysis

Timbercreek Senior Mortgage Investment Corporation

For the three months ended March 31, 2014

Timbercreek
Asset Management

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FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

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

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time-to-time in the Company's public disclosures.

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 May 6, 2014. 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.

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BUSINESS OVERVIEW

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

The Company invests in first mortgage investments selected and determined to be high quality by the Manager. 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 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 first mortgage investments, consisting primarily of conventional mortgages secured directly by multi-residential, retirement homes, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

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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 was subject to and files all continuous disclosure materials in compliance with the Public Company Regime requirements, which includes preparation of its financial statements in accordance with International Financial Reporting Standards ("IFRS"), along with a Management's Discussion and Analysis.

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

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 investments.

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

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

BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three months ended March 31, 2014 (the "Period" or "Q1 2014") and 2013 ("Q1 2013"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the three months ended March 31, 2014 and 2013, which are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), as applicable to interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

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

Copies of these documents have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR website at www.sedar.com.

NON-IFRS MEASURES

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

- Expense ratio – represents total expenses (excluding financing costs, transition related costs and provision for mortgage investments loss) for the stated period, expressed as an annualized percentage of the average net mortgage investment portfolio;
- Net mortgage investments – represents total mortgage investments net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and provision for mortgage investment loss as at the reporting date;
- Average net mortgage investment – represents the total net mortgage investments divided by the total number of mortgage investments at the reporting date;
- Average net mortgage investment portfolio – represents the monthly average of the net mortgage investment portfolio over the stated period;
- Weighted average interest rate – represents the weighted average interest rate on the net mortgage investments at the reporting date;
- Average lender fees – represents the cash lender fees received as a percentage of new net mortgage investments funded during the stated period;
- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period; and
- Payout ratio – represents total dividends paid to the holders of redeemable shares and common shares during the stated period, divided by distributable income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

During the Period, the Manager continued to see sufficient deal flow to meet the Company's investment objectives. The Manager also continues to be comfortable lending in the current real estate environment and views the Canadian investment-grade real estate fundamentals as being stable and sustainable. This is a result of overall rental rates being reasonable and affordable, as well as strong economic activity and continued demand for investments from a diversified pool of investors.

Competition from other lending institutions has not changed materially; yet, as is common in the first quarter of a new calendar year, there were more bidders for loans than the previous quarter as lenders receive fresh allocations for the new calendar year. This put some minor pressure on rates during the first quarter, however this pressure was not sufficient to materially affect the overall yield generated by the Company.

The Manager continues to successfully find a sufficient volume of high quality mortgage investments and therefore did not see any 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 mortgage 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 2014 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 mortgage 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

The financial highlights of the Company are as follows:

	Three months ended		Year ended
	March 31, 2014	March 31, 2013	December 31, 2013
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (as at)			
Mortgage investments, including mortgage syndications	$ 507,722	$ 424,364	$ 515,797
Total assets	$ 509,404	$ 425,837	$ 519,007
Credit facility	$ 104,715	$ 11,146	$ 108,746
Net assets attributable to holders of redeemable shares	$ –	$ 352,359	$ –
Shareholders' equity	$ 288,713	$ –	$ 288,762
FINANCIAL INFORMATION (for the period ended)			
Distributable income	$ 4,500	$ 5,142	$ 21,082
Targeted dividend yield [1]	4.51%	4.55%	4.61%
Actual dividend yield [2]	6.92%	6.39%	7.03%
Closing trading price	$ 8.79	$ 9.52	$ 8.54
Payout ratio [3]	105.17%	110.30%	104.50%
Net income per share (basic and diluted)	$ 0.148	–	$ 0.425
Dividends per share:			
Class A	$ –	$ 0.150	$ 0.500
Class B	$ –	$ 0.162	$ 0.540
Class I	$ –	$ 0.162	$ 0.540
Class J	$ –	$ 0.156	$ 0.520
Common	$ 0.150	$ –	$ 0.100
MORTGAGE INVESTMENTS INFORMATION[3]			
Net mortgage investments	$ 396,220	$ 368,240	$ 401,456
Total number of net mortgage investments	63	43	62
Average net mortgage investment	$ 6,289	$ 8,564	$ 6,475
Weighted average interest rate	6.53%	6.50%	6.52%
Average lender fee	0.65%	0.90%	0.86%
Turnover ratio	10.00%	28.02%	84.35%

1 Targeted dividend yield equals the monthly average 2-Year Government of Canada Bond Yield plus 350 basis points.

2 Actual dividend yield equals the total per share dividend for the stated period for Class A shares and common shares divided by the trading close price at the stated period end (annualized).

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

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For the three months ended March 31, 2014 ("Q1 2014") and March 31, 2013 ("Q1 2013")

- The Company funded six new net mortgage investments (Q1 2013 – sixteen) totaling $26.3 million (Q1 2013 – $120.3 million), had additional advances on existing net mortgage investments totaling $8.2 million (Q1 2013 – $16.5 million) and received full repayments on five net mortgage investments (Q1 2013 – five) and partial pay downs totaling $39.7 million (Q1 2013 – $101.6 million), resulting in net mortgage investments of $396.2 million as at March 31, 2014 (December 31, 2013 – $401.5 million).
- The Company received non-refundable lender fees of $0.2 million (Q1 2013 – $1.1 million; 0.90%) or 0.65% of the new net mortgage investments funded in Q1 2014.
- Net interest income earned by the Company was $7.3 million (Q1 2013 – $6.6 million), an increase of $0.7 million, or 10.6%, from Q1 2013. The increase is from there being less idle cash in the quarter and more leverage deployed.
- The Company generated income from operations of $5.9 million (Q1 2013 – $4.9 million), an increase of $1.0 million, or 20.4%, from Q1 2013. The increase is a result of the increase in net interest income and the savings from the removal of the requirement to pay trailer fees after the Transition.
- The Company paid dividends of $0.150 per common share for a total of $4.7 million (Q1 2013 – nil; nil). During Q1 2013, the Company paid dividends of $0.150 per Class A share for a total of $5.5 million, $0.162 per Class B share for a total of $0.04 million, $0.162 per Class I share for a total of $0.05 million and $0.156 per Class J share for a total of $0.04 million. Total dividends paid in Q1 2013 were $5.7 million. The dividends exceeded the Company's targeted dividend yield of the 2-Year Government of Canada Bond Yield ("2-Yr GOC Yield") plus 350 basis points.
- The Board of Directors appointed Andrew Jones as Chief Executive Officer of the Company, effective January 20, 2014, to replace Blair Tamblyn. Blair Tamblyn will remain as Chairman of the Board of Directors.
- The Board of Directors appointed David Melo as Chief Financial Officer of the Company, effective March 25, 2014, to replace Ugo Bizzarri. Ugo Bizzarri was added to the Board of Directors as part of the Transition.
- On March 21, 2014, the credit facility agreement with a syndicate of lenders was amended to extend the maturity date of the credit facility to June 23, 2014. The Manager is currently working with the syndicate of lenders to extend the credit facility for a long-term period prior to the June 23, 2014 maturity.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

Distributable income

	Three months ended March 31, 2014	Year ended December 31, 2013
Net income (loss) and comprehensive income (loss)	$ 4,685	$ (6,453)
Less: amortization of lender fees	(756)	(2,330)
Add: one-time Transition related costs	–	3,871
Add: lender fees received during the period	171	3,267
Add: amortization of financing costs	225	552
Add: issuance cost of redeemable shares	–	3,301
Add: dividends to holders of redeemable shares	–	18,874
Add: provision for mortgage investments loss	175	–
Distributable income	**4,500**	**21,082**
Less: dividends to holders of redeemable shares	–	(18,874)
Less: dividends to common shareholders	(4,733)	(3,156)
(Over) / under distribution	**(233)**	**(948)**

Payout ratio	105.17%	104.50%
Turnover ratio	10.00%	84.35%
Credit facility balance at period end	104,847	108,971
Credit facility limit	130,000	130,000
Credit facility utilization of aggregate value of assets at period end	26%	27%

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

The Board of Directors have set a dividend policy that is predicated on what they believe to be a long-term sustainable objective. A number of factors are assessed and evaluated each time the Board of Directors reviews, and approves dividends. As noted earlier in the 'Recent Developments and Outlook' sections, both the Manager and the Board of Directors remain very comfortable with the broader market fundamentals.

When evaluating the specific performance metrics of the Company's ability to sustain, and ultimately grow dividends, a number of criteria were noted by the Board of Directors. Two 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 dividends. 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 the assets of the Company at any time, with the remaining portion of the credit facility reserved for general working capital purposes. As at March 31, 2014, the Company's leverage was 26% (December 31, 2013 – 27%) of the aggregate value of the assets of the Company. Although below the Company's targeted leverage, the Company expects general volatility in the leverage levels at any given month end.

Portfolio Turnover

Portfolio turnover (i.e. the repayment of net mortgage investments), while inherently a validation of a lenders exit strategy, also impacts dividends by virtue of causing "cash drag" on short-notice repayments. Ensuring the Company maintains a leverage ratio of approximately 30% on an annual basis helps mitigate short-notice unexpected repayments. As noted above, the portfolio turnover for the Period of 10.00% (Q1 2013 – 28.02%) is in line with the Company's long-term expectation of 30% per annum.

The Board of Directors and the Manager believe that, in light of the factors noted above, an over-distribution of $(233) through March 31, 2014, representing 0.06% of the total assets of the Company is reasonable in light of the fact that dividends are straight-lined throughout the year while we experience timing related fluctuations in distributable income throughout the year. Specifically, in any given quarter lender fees received are directly impacted by portfolio turnover, which we model on an annualized basis based on historical trends. If at any time during the year the Board of Directors and the Manager believe that distributable income will be impacted long-term, our dividends would be adjusted accordingly.

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31, 2014	Three months ended March 31, 2013	% Change
Net interest income	$ 7,262	$ 6,567	10.6%
Expenses	(1,350)	(1,655)	18.4%
Income from operations	5,912	4,912	20.4%
Financing costs:			
Interest on credit facility	(1,227)	(466)	(163.1%)
Issuance costs of redeemable shares	–	(3,241)	100.0%
Dividends to holders of redeemable shares	–	(5,671)	100.0%
Net income (loss) and comprehensive income (loss)	**$ 4,685**	**$ (4,466)**	**204.9%**

Net interest income[1]

In Q1 2014, the Company earned net interest income of $7.3 million (Q1 2013 – $6.6 million). The increase in net interest income over Q1 2013 was due to the Company increasing its net mortgage investments by $28.0 million, or 7.6%, from March 31, 2013 to March 31, 2014. Net interest income is made up of the following:

(a) Interest income

In Q1 2014, the Company earned $6.5 million (Q1 2013 – $5.9 million) in interest income on the net mortgage investments. The weighted average interest rate on the net mortgage investment portfolio increased marginally from March 31, 2013, to 6.53% at March 31, 2014 from 6.50% at March 31, 2013.

(b) Lender fee income

In Q1 2014, the Company received non-refundable lender fees of $0.2 million (Q1 2013 – $1.1 million), or 0.65% (Q1 2013 – 0.90%) of new mortgage investments funded in the Period. These lender fees are amortized using the effective interest rate method over the expected life of the net mortgage investments to lender fee income. In Q1 2014, $0.8 million (Q1 2013 – $0.5 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 retain any portion of the lender fees, unlike other competing mortgage investment corporations, ensuring management interests are aligned with the Company.

[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.

(c) Other income

In Q1 2014, the Company earned $0.02 million (Q1 2013 – $0.1 million) in other income. Other income includes fees earned on mortgage investment fundings, prepayment penalties and exit fees earned on mortgage investment repayments and other miscellaneous fees. The Manager does not retain any portion of fees, thus maximizing the income of the Company.

Expenses

The Company's expense ratio[2] was 1.20% (Q1 2013 – 1.85%) for Q1 2014. As the Company continues to grow its net mortgage investments 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.

(a) Management fees

As part of the Transition, the Company has entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. Under the new management agreement, the Company pays the Manager an annual management fee of 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets are calculated as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties.

The Company incurred management fees of $1.0 million (Q1 2013 – $1.0 million) in Q1 2014.

(b) Trailer fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay trailer fees to the brokers effective for the quarter ended September 30, 2013. Prior to September 30, 2013, the Company was paying each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share and 0.25% annually of the net redemption value per Class J share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. As such, the Company paid no trailer fees during the Period (Q1 2013 – $0.4 million).

(c) General and administrative

The Company incurred general and administrative expenses of $0.2 million (Q1 2013 – $0.3 million) in Q1 2014. 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. As the Company increases its net assets, operating expenses continue to decrease, equating to 0.2% of the average net mortgage investment portfolio for the Period (Q1 2013 – 0.3%).

(d) Interest on credit facility

Financing costs include interest paid on amounts drawn on the credit facility, stand-by fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing

[2] Defined in non-IFRS measures section.

of the credit facility. Financing costs for Q1 2014 relating to the credit facility were $1.2 million (Q1 2013 – $0.5 million). Interest on the credit facility has increased due to the increased use of leverage since Q1 2013 to fund net mortgage investments in-line with the Company's business strategy.

As at March 31, 2014, the Company's leverage was 26% (Q1 2013 – 3%) of the aggregate value of the assets of the Company.

(e) Issuance costs of common shares and redeemable shares

The common shares are classified as shareholders' equity and thus, any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. For the three months ended March 31, 2014, the Company did not incur any issuance costs as there were no equity offerings during the Period.

As the Class A, B, I and J shares were classified as liabilities under IFRS prior to the Transition, the issuance costs associated with periodic equity offerings were recorded as financing costs and were recognized in profit and loss during Q1 2013. In Q1 2013, the Company incurred issuance costs of $3.2 million relating to the issuance of Class A and B shares on total gross proceeds of $60.5 million. The issuance costs include agent's commissions, legal, professional and other costs relating to the offerings.

(f) Dividends to holders of common shares and redeemable shares

The Company intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month. Below is a summary of the dividends to holders of common shares and holders of redeemable shares for the three months ended March 31, 2014 and 2013.

	Three months ended March 31, 2014	
	Dividends per share	Total
Common	$ 0.150	$ 4,733

	Three months ended March 31, 2013	
	Dividends per share	Total
Class A	$ 0.150	$ 5,538
Class B	0.162	36
Class I	0.162	53
Class J	0.156	44

The actual dividend yield of 6.92% (March 31, 2013 – 6.39%) on common shares (based on the closing market price of common shares at period end) is in excess of the Company's targeted dividend yield of 4.51% (March 31, 2013 – 4.55%).

STATEMENT OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	March 31, 2014	December 31, 2013	Change
Mortgage investments, including mortgage syndications	$ 396,220	$ 401,456	$ (5,236)
Interest receivable	2,471	2,177	294
	398,691	403,633	(4,942)
Unamortized lender fees	(2,665)	(3,249)	584
Provision for mortgage investment loss	(175)	–	(175)
	$ 395,851	**$ 400,384**	**$ (4,533)**

The Company funded six new net mortgage investments (Q1 2013 – sixteen) totaling $26.3 million (Q1 2013 – $120.3 million), had additional advances on existing net mortgage investments totaling $8.2 million (Q1 2013 – $16.5 million) and received full repayments on five net mortgage investments (Q1 2013 – five) and partial pay downs totaling $39.7 million (Q1 2013 – $101.6 million), resulting in net mortgage investments of $396.2 million as at March 31, 2014 (December 31, 2013 – $401.5 million), or a portfolio turnover rate of 10.00% (Q1 2013 – 28.02%). As at March 31, 2014, the average net mortgage investment was approximately $6.3 million (December 31, 2013 – $6.5 million), generally in-line with year-end.

As at March 31, 2014, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investments. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings and assessed them for impairment using a statistical model. Based on the amounts determined by the analysis, the Company will use judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. In Q1 2014, the Company has recognized a collective provision for mortgage investments loss of $175 (Q1 2013 – nil).

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, all of which is secured by first mortgage positions, whereby the lenders take the senior position and the Company retains the subordinated first position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lender's proportionate share together with all accrued interest. During the Period, the mortgage syndication liabilities have decreased to $111.9 million (December 31, 2013 – $115.4 million), as the Company received full repayments on a few syndicated mortgage investments during the Period.

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As at March 31, 2014, the Company's mortgage investments comprised of 63 mortgage investments (December 31, 2013 – 62) which were allocated across the following categories:

(a) Region

	March 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
ON	33	51.7%	31	45.5%
QC	9	20.9%	9	20.7%
AB	8	9.8%	9	10.3%
BC	5	7.5%	6	14.1%
SK	4	5.9%	4	5.7%
OT	1	1.9%	1	1.9%
NS	1	1.5%	1	1.6%
NB	1	0.6%	–	–
MB	1	0.2%	1	0.2%
	63	**100.0%**	**62**	**100.0%**

The Company continued to focus its efforts on diversifying the mortgage investment portfolio, with its greatest concentration in Canada's largest provinces. As at March 31, 2014, 89.9% of the mortgage investments (December 31, 2013 – 90.6%) were allocated across Ontario, Quebec, British Columbia and Alberta. The Company has continued to maintain significant exposure to Ontario as it has benefited from sourcing mortgages secured by high-quality, cash flowing multi-residential and office assets in good markets, with multiple repeat borrowers with proven track records.

(b) Maturity

	March 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Maturing 2014	12	14.0%	17	17.1%
Maturing 2015	30	52.6%	33	59.4%
Maturing 2016	17	28.6%	12	23.5%
Maturing 2017	4	4.8%	–	–
	63	**100.0%**	**62**	**100.0%**

The Company's portfolio turnover rate for the Period was 10.00% (Q1 2013 – 28.02%), which is in line with the Company's long-term expectation of 30% per annum. The Company's strong portfolio turnover helps generate fee income, all of which goes to the Company while ensuring the Company is able to respond quickly to a changing interest rate environment. The weighted average term to maturity as at March 31, 2014 is 2.3 years (December 31, 2013 – 2.2 years), in-line with the portfolio's target maturity of 2 – 3 years.

(c) Asset Type

	March 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
Multi-residential	26	40.3%	23	40.3%
Office	9	14.8%	9	14.6%
Retail	8	12.6%	9	12.3%
Retirement	3	8.8%	3	8.7%
Industrial	5	5.4%	6	6.4%
Other-residential	3	7.1%	2	5.5%
Hotels	2	4.9%	2	4.8%
Unimproved land	4	4.2%	4	4.1%
Single-residential	2	0.6%	2	1.7%
Self-storage	1	1.3%	2	1.6%
	63	**100.0%**	**62**	**100.0%**

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

(d) Interest Rate

	March 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
5.00% or lower	6	12.9%	4	13.2%
5.01%–5.49%	4	8.5%	4	8.4%
5.50%–5.99%	9	12.9%	9	13.8%
6.00%–6.49%	7	11.2%	6	10.5%
6.50%–6.99%	6	11.4%	6	11.3%
7.00% or greater	31	43.1%	33	42.8%
	63	**100.0%**	**62**	**100.0%**

The weighted average interest rate, excluding lender fee income, on the net mortgage investments at March 31, 2014 was 6.53% (December 31, 2013 – 6.52%). The weighted average interest rate exceeded the Company's target return for the Period of 4.51% (March 31, 2013 – 4.55%), equal to the 2-Yr GOC Yield plus 350 basis points.

(e) Loan-to-value

	March 31, 2014		December 31, 2013	
	# of Net Mortgage Investments	% of Net Mortgage Investments	# of Net Mortgage Investments	% of Net Mortgage Investments
55% or less	33	48.0%	29	44.2%
56%–60%	5	4.9%	7	7.3%
61%–65%	10	22.7%	16	30.5%
66%–70%	15	24.4%	10	18.0%
	63	**100.0%**	**62**	**100.0%**

The loan-to-value on the net mortgage investments at March 31, 2014 was 43.7% (December 31, 2013 – 45.1%), well below the AAM's ceiling of 70%.

Net working capital

Net working capital increased by $0.7 million to $0.05 million at March 31, 2014 from ($0.7) million at December 31, 2013, mainly due to an increase in interest receivable from the mortgage investments and a decrease in accounts payable and accrued expenses. The Company has capacity available on its credit facility to manage its working capital while seeking to maintain its target leverage level.

Credit facility

The Company has a credit facility agreement with a syndicate of lenders in an amount of up to $130 million, 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 also has an option to increase the limit by another $60 million, subject to certain terms and conditions. The credit facility is secured by a general security agreement over the Company's assets. On March 21, 2014, the credit facility was amended to extend the maturity date of the credit facility to June 23, 2014. The Manager is currently working with the syndicate of lenders to extend the credit facility for a long-term period prior to the June 23, 2014 maturity. As at March 31, 2014, $104.8 million (December 31, 2013 – $109.0 million) was outstanding on the credit facility.

As at March 31, 2014, there were $0.1 million (December 31, 2013 – $0.2 million) in unamortized financing costs related to the structuring of the credit facility, which are netted against the credit facility. In Q1 2014, the Company amortized financing costs of $0.2 million (Q1 2013 – $0.1 million), 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. Prior to the Transition, the Company's Class A, Class B, Class I and Class J shares did not meet the criteria in IAS 32 for classification as equity and therefore, were classified as financial liabilities. In addition, the dividends and issuance costs related to these shares were also presented as financing costs in the statement of net loss and comprehensive loss. Subsequent to the Transition, as described in the section 'Transition to Public Company Regime', Class A, Class B, Class I and Class J shares were exchanged into common shares and are classified as equity.

During Q1 2013, the Company completed a public offering of 5,916,446 Class A shares for gross proceeds of $58.3 million. The Company also completed a non-brokered private placement of 220,559 Class B shares, for gross proceeds of $2.2 million during Q1 2013.

Dividend reinvestment plan

As part of the Transition, the Company has amended and restated its dividend reinvestment plan ("DRIP") effective as of November 20, 2013. The amended and restated DRIP (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on April 18, 2012. In Q1 2014, 28,397 common shares were issued under the Amended DRIP, which were acquired from the market (Q1 2013 – 43,762 Class A shares issued from treasury under the Original DRIP).

Common shares

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

The common shares are classified as equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

The changes in the number of common shares are as follows:

Three months ended March 31, 2014	
Common shares outstanding, beginning of period	31,556,608
Repurchased	(28,397)
Issued under dividend reinvestment plan	28,397
Common shares outstanding, end of period	31,556,608

QUARTERLY FINANCIAL INFORMATION

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

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Net interest income	$ 7,262	$ 7,325	$ 7,377	$ 6,964	$ 6,567	$ 5,504	$ 4,255	$ 2,468
Expenses	(1,350)	(1,436)	(4,953)	(1,613)	(1,655)	(1,333)	(1,339)	(693)
Income from operations	5,912	5,889	2,424	5,351	4,912	4,171	2,916	1,775
Financing costs:								
Interest on credit facility	(1,227)	(1,048)	(662)	(679)	(466)	(451)	(246)	(285)
Issuance costs of redeemable shares	–	(4)	(60)	3	(3,241)	(33)	(6,426)	(200)
Dividends to holders of redeemable shares	–	(1,851)	(5,644)	(5,708)	(5,671)	(4,757)	(4,754)	(2,337)
	(1,227)	(2,903)	(6,366)	(6,384)	(9,378)	(5,241)	(11,426)	(2,822)
Net income (loss) and comprehensive income (loss)	**$ 4,685**	**$ 2,986**	**$ (3,942)**	**$ (1,033)**	**$ (4,466)**	**$ (1,070)**	**$ (8,510)**	**$ (1,047)**

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

- The Company has raised gross proceeds of approximately $224.7 million since Q2 2012. The proceeds from these offering have been used to fund net mortgage investments, the timing of which typically occur around periodic offerings and existing mortgage investment maturities, which vary throughout the year. Following past periodic equity offerings, the Company has been subject to holding idle cash while it originates new mortgage investments or waits for the closing of existing mortgage investment commitments. The Company seeks to deploy idle cash within 60 to 90 days of closing an equity offering.
- The dividends to holders of redeemable shares and issuance costs relating to redeemable shares were presented in the statement of income (loss) and comprehensive income (loss) until October 2013 and the dividends to common shareholders are now presented in the statement of changes in equity from the Exchange Date onwards.
- In Q3 2013, the Company incurred $3.7 million of one-time costs relating to the Transition, which is included in expenses.
- In Q1, 2014, as a result of the Special Redemption of $51.5 million in Q4 2013, the mortgage investment portfolio was smaller thus resulting in lower interest and fee income than Q4 2014.

RELATED PARTY TRANSACTIONS

As at March 31, 2014, due to Manager includes management fees payable of $0.3 million (December 31, 2013 – $0.3 million) and no additional amounts (December 31, 2013 – $0.04 million) relating to costs incurred by the Manager on behalf of the Company.

As at March 31, 2014, the Company and TMIC, a related party by virtue of common management, have co-invested in several mortgage investments, totaling $659.3 million (December 31, 2013 – $682.0 million), which are secured primarily by multi-residential, office, retirement and other commercial properties. The Company's net share in these investments is $453.0 million (December 31, 2013 – $466.0 million), and included in this amount is a mortgage investment of $8.0 million (December 31, 2013 – $7.7 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. In addition, $1 (December 31, 2013 – payable of $0.3 million) is payable by the Company to TMIC relating to amounts paid on behalf of the Company.

As at March 31, 2014, the Company, T4Q and Timbercreek Canadian Direct LP, related parties 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 $8.0 million (December 31, 2013 – $5.0 million).

As at March 31, 2014, included in other assets is $1.6 million (December 31, 2013 – $3.1 million), of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., the Company's mortgage servicing and administration provider and a related party by virtue of common management. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers. Also included in other assets is $0.01 million receivable by the Company from the Manager relating to amounts paid on behalf of the Manager.

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

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

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

Mortgage investments:

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: 1) payment default by a borrower; 2) whether security of the mortgage negatively impacted by some event; and 3) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

Measurement of fair values:

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

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

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

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

CHANGES IN ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

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

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The Company has adopted the amendments to IAS 32 in its condensed consolidated interim financial statements for the three months ended March 31, 2014 and 2013. The implementation of these standards had no impact on the condensed consolidated interim financial statements.

OUTSTANDING SHARE DATA

As at May 6, 2014, the Company's authorized capital consists of an unlimited number of common shares, of which 31,556,608 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.

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 ratio of approximately 30% and use the credit facility to manage the fluctuations in cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs.

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

	Carrying Values	Contractual cash flows	Within a year	Following year	2–5 years	Over 5 years
Credit facility[1]	$ 104,715	$ 105,857	$ 105,857	$ –	$ –	$ –
Mortgage funding holdbacks	455	455	455	–	–	–
Dividends payable	1,578	1,578	1,578	–	–	–
Due to Manager	321	321	321	–	–	–
Prepaid mortgage interest	1,143	1,143	1,143	–	–	–
Accounts payable and accrued expenses	608	608	608	–	–	–
Unadvanced mortgage commitments	–	32,574	32,574	–	–	–
	$ 108,820	**$ 142,536**	**$ 142,536**	**$ –**	**$ –**	**$ –**

1 Includes interest on the credit facility assuming the outstanding balance is not repaid until its maturity in June 2014.

As at March 31, 2014, the Company's cash position was nil (December 31, 2013 – nil) and there was an undrawn credit facility balance of $25.2 million (December 31, 2013 – $21.0 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations, 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		
Other assets	Loans and receivables	Amortized cost
Mortgage investments, including mortgage syndications	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Due to Manager	Other financial liabilities	Amortized cost
Credit facility	Other financial liabilities	Amortized cost
Mortgage funding holdbacks	Other financial liabilities	Amortized cost
Prepaid mortgage interest	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost

The fair values of other assets, credit facility, accounts payable and accrued expenses, mortgage funding holdbacks, dividends payable, due to Manager and prepaid mortgage interest approximate their carrying amounts due to their short-term nature.

The fair value of mortgage investments and mortgage syndication liabilities approximate 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.

The Company's use of financial instruments exposes the Company to various related risks which are outlined the consolidated financial statements of the Company for the year ended December 31, 2013. There were no changes in risks during Q1 2014.

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.

For a full discussion of the risks and uncertainties, please also refer to the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2013.

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO on a timely basis, so that appropriate decisions can be made regarding public disclosures.

The preparation of this information is supported by a set of disclosure controls and procedures ("DC&P's") implemented by management. In fiscal 2013, these 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 DC&P's as at December 31, 2013. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Company and the requirements of National Instrument 52-109 of the Canadian Securities Administrators titled, 'Certification of Disclosure in Issuers' Annual and Interim Filings'.

There were no changes made to our DC&P during the three months ended March 31, 2014.

The Company continues to review the design of DC&P's to provide reasonable assurance that material information relating to the Company is properly communicated to certifying officers responsible for establishing and maintaining DC&P's, as those terms are defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings as at December 31, 2013. The Company confirmed the effectiveness of the design of Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information the Company may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business.

As at December 31, 2013, the Company confirmed the effectiveness of the design of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information. The Company may, from time-to-time, make changes aimed at enhancing its effectiveness and ensuring that our systems evolve with the changing needs. The design of ICFR are reviewed and updated, if necessary, to ensure they remain effective to provide reasonable assurance regarding the reliability of financial statements and information. There were no changes made in our ICFR during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our ICFR.

ADDITIONAL INFORMATION

Phone

Calling the Company at 1-866-898-8868, Carrie Morris, Managing Director Capital Markets & Corporate Communications.

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 306-9967 ext. 7266 (collect if long distance).

Internet

Visiting SEDAR at www.sedar.com; or

Mail

Writing to the Company at:

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