

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► SEE ATTACHED.

Horizontal lines for listing applicable Internal Revenue Code sections and subsections.

18 Can any resulting loss be recognized? ► SEE ATTACHED.

Horizontal lines for providing information regarding resulting loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► SEE ATTACHED.

Horizontal lines for providing other information necessary to implement the adjustment.

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.			
	Signature ► <i>Brad Farrell</i>	Date ► 1/19/18		
Paid Preparer Use Only	Print your name ► BRAD FARRELL	Title ► CHIEF FINANCIAL OFFICER		
	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ►	Firm's EIN ►		
	Firm's address ►	Phone no.		

Two Harbors Investment Corp.
Conversion Rate Adjustment on Convertible Note Deemed a Distribution

Attachment to Form 8937

CONSULT YOUR TAX ADVISOR

THE FOLLOWING DISCUSSION IS A SUMMARY OF MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE CONVERSION RATE ADJUSTMENT ON THE CONVERTIBLE NOTE DEEMED A DISTRIBUTION UNDER CURRENT LAW AND IS FOR GENERAL INFORMATION ONLY. THE INFORMATION CONTAINED HEREIN DOES NOT CONSTITUTE TAX ADVICE AND DOES NOT PURPORT TO BE COMPLETE OR TO DESCRIBE THE CONSEQUENCES THAT MAY APPLY TO PARTICULAR CATEGORIES OF SHAREHOLDERS.

SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISOR WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES OF THE CONVERSION RATE ADJUSTMENT ON THE CONVERTIBLE NOTE DEEMED A DISTRIBUTION.

Part II – Organizational Action

Line 14. Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action.

On March 31, 2017, June 30, 2017, September 29, 2017, October 20, 2017, and December 26, 2017, Two Harbors Investment Corp.'s 6.25% Convertible Senior Notes due 2022 had a deemed distribution per \$1,000 principal amount of the notes of \$0.4460, \$1.0371, \$1.1315, \$76.8709, and \$2.7163, respectively.

Line 15: Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.

The taxable portion of a deemed distribution increases the basis of the notes in the hands of the taxpayer. The non-taxable portion of the deemed distribution does not affect the basis of the notes in the hands of the taxpayer. The table below shows the taxable and non-taxable portions of each deemed distribution per \$1,000 principal amount of the 6.25% Convertible Senior Notes due 2022:

Deemed Distribution Date	Deemed Distribution	Taxable Portion (Deemed Dividend)	Non-Taxable Portion
03/31/2017	\$0.446000	\$0.161786	\$0.284214
06/30/2017	\$1.037087	\$0.376203	\$0.660884
09/29/2017	\$1.131457	\$0.410436	\$0.721022

10/20/2017	\$76.870914	\$27.884898	\$48.986016
12/26/2017	\$2.716258	\$0.985322	\$1.730936

Line 16: Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates.

The Conversion Rate Adjustment was treated for U.S. federal income tax purposes under IRC Section 305(c) and consistent with Prop. Reg. Section 1.305-7(c)(4)(i)(A)-(B), (4/13/2016) as a deemed distribution in an amount equal to the excess of (a) the fair market value of the total rights on the Ex-Dividend Date, given the Conversion Rate Adjustment, over (b) the fair market value that the total rights would have had on the Ex-Dividend Date, if the Conversion Rate Adjustment had not occurred. The portion of the deemed distribution that is taxable is based on the allocable share of the earnings and profits. Two Harbors Investment Corp.'s earnings and profits were calculated under IRC Section 312 (as modified by IRC Section 857(d) for a real estate investment trust), and the regulations thereunder.

Line 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.

IRS Section 301(c)(1), 305(b)(2) and 305(c). Reg. 1.301-1(h) and Rev. Rul. 76-186, 1976-1 C.B.86, Prop. Reg. 1.305-3(f).

Line 18: Can any resulting loss be recognized?

No.

Line 19: Provide any other information necessary to implement the adjustment, such as the reportable tax year:

These actions are effective on the date of the distribution identified above and reportable in the 2017 taxable year.