

Condensed Consolidated
Interim Financial Statements of

Timbercreek Financial

Three months and six months ended June 30, 2017 and 2016



CONDENSED CONSOLIDATED INTERIM STATEMENT OF
FINANCIAL POSITION

In thousands of Canadian dollars
(Unaudited)

| | Note | June 30, 2017 | December 31, 2016 |
|---|----------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | | \$ 477 | \$ 61 |
| Other assets | 14(b) | 8,256 | 3,191 |
| Mortgage investments, including mortgage syndications | 5(a)(b)(c)(d) | 1,681,087 | 1,549,849 |
| Other investments | 5(e) | 64,808 | 9,828 |
| Foreclosed properties held for sale | 6 | 6,041 | 11,041 |
| Total assets | | \$ 1,760,669 | \$ 1,573,970 |
| LIABILITIES AND EQUITY | | | |
| Accounts payable and accrued expenses | | \$ 3,514 | \$ 2,188 |
| Dividends payable | 9(b) | 4,221 | 4,210 |
| Due to Manager | 14(a) | 953 | 819 |
| Mortgage funding holdbacks | | 586 | 137 |
| Prepaid mortgage interest | | 2,956 | 682 |
| Credit facility | 7 | 362,406 | 299,000 |
| Convertible debentures | 8 | 162,863 | 76,757 |
| Mortgage syndication liabilities | 5 | 572,812 | 543,505 |
| Total liabilities | | \$ 1,110,311 | \$ 927,298 |
| Shareholders' equity | | 650,358 | 646,672 |
| Total liabilities and equity | | \$ 1,760,669 | \$ 1,573,970 |
| Commitments and contingencies | 5, 9(b) and 19 | | |
| Subsequent events | 9(b) and 10 | | |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF NET
INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per share amounts
(Unaudited)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------|--------------------------------|------------------|------------------------------|------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Interest income: | | | | | |
| Gross interest and other income, including mortgage syndications | 5(b) and (e) | \$ 27,936 | \$ 15,615 | \$ 55,804 | \$ 30,056 |
| Interest and other income on mortgage syndications | | (6,488) | (4,693) | (13,589) | (8,336) |
| Net interest income | | 21,448 | 10,922 | 42,215 | 21,720 |
| Expenses: | | | | | |
| Management fees | 11 | 2,564 | 1,559 | 5,062 | 3,120 |
| Servicing fees | 11 | 162 | – | 319 | – |
| Performance fees | 11 | – | 610 | – | 1,207 |
| Provision for mortgage investments loss | 5(d) | – | – | 200 | – |
| General and administrative | | 365 | 249 | 733 | 526 |
| Total expenses | | 3,091 | 2,418 | 6,314 | 4,853 |
| Income from operations | | 18,357 | 8,504 | 35,901 | 16,867 |
| Net operating gain (loss) from foreclosed properties held for sale | | | | | |
| | | 19 | (39) | 83 | (33) |
| Realized loss on disposal of foreclosed properties held for sale | | | | | |
| | | (143) | – | (143) | – |
| Termination of management contracts | 4 | – | (7,438) | – | (7,438) |
| Transaction costs relating to the Amalgamation | 4 | – | (1,573) | – | (1,573) |
| Bargain purchase gain | 4 | – | 15,154 | – | 15,154 |
| Financing costs: | | | | | |
| Interest on credit facility | 7 | 2,831 | 600 | 5,569 | 1,127 |
| Interest on convertible debentures | 8 | 2,267 | 666 | 4,191 | 1,332 |
| Total financing costs | | 5,098 | 1,266 | 9,760 | 2,459 |
| Net income and comprehensive income | | \$ 13,135 | \$ 13,342 | \$ 26,081 | \$ 20,518 |
| Earnings per share | | | | | |
| Basic | 12 | 0.18 | 0.33 | 0.35 | 0.50 |
| Diluted | 12 | 0.18 | 0.32 | 0.35 | 0.50 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

TIMBERCREEK FINANCIAL

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars
(Unaudited)

| Six months ended June 30, 2017 | Common Shares | Retained Earnings | Equity Component of Convertible Debentures | Total |
|---|--------------------------|------------------------------|---|-------------------|
| Balance, December 31, 2016 | \$ 647,173 | \$ (1,272) | \$ 771 | \$ 646,672 |
| Issuance of convertible debentures, net of issue costs | - | - | 1,167 | 1,167 |
| Dividends | - | (25,290) | - | (25,290) |
| Issuance of common shares under dividend reinvestment plan | 2,059 | - | - | 2,059 |
| Repurchase of common shares | (331) | - | - | (331) |
| Total net income and comprehensive income | - | 26,081 | - | 26,081 |
| Balance, June 30, 2017 | \$ 648,901 | \$ (481) | \$ 1,938 | \$ 650,358 |

| Six months ended June 30, 2016 | Common Shares | Retained Earnings | Equity Component of Convertible Debentures | Total |
|---|--------------------------|------------------------------|---|-------------------|
| Balance, December 31, 2015 | \$ 369,162 | \$ (7,378) | \$ 545 | \$ 362,329 |
| Common shares issued as part of the acquisition of TSMIC | 271,483 | - | - | 271,483 |
| Common shares issued to the Manager | 6,528 | - | - | 6,528 |
| Dividends | - | (14,587) | - | (14,587) |
| Issuance of common shares under dividend reinvestment plan | 1,523 | - | - | 1,523 |
| Repurchase of common shares | (1,523) | - | - | (1,523) |
| Total net income and comprehensive income | - | 20,518 | - | 20,518 |
| Balance, June 30, 2016 | \$ 647,173 | \$ (1,447) | \$ 545 | \$ 646,271 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

TIMBERCREEK FINANCIAL

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

In thousands of Canadian dollars
(Unaudited)

| | Note | Three months ended June 30, | | Six months ended June 30, | |
|--|------|--------------------------------|------------------|------------------------------|------------------|
| | | 2017 | 2016 | 2017 | 2016 |
| OPERATING ACTIVITIES | | | | | |
| Total net income and comprehensive income | | \$ 13,135 | \$ 13,342 | \$ 26,081 | \$ 20,518 |
| Amortization of lender fees | | (1,922) | (1,055) | (3,656) | (2,092) |
| Lender fees received | | 2,283 | 1,189 | 3,642 | 2,122 |
| Interest and income, net of syndications | | (19,526) | (9,867) | (38,539) | (19,628) |
| Interest and other income received, net of syndications | | 18,169 | 10,371 | 35,683 | 19,264 |
| Financing costs | | 5,098 | 1,266 | 9,760 | 2,459 |
| Realized loss on disposal of foreclosed properties held for sale | | 143 | – | 143 | – |
| Termination of management contracts | | – | 6,529 | – | 6,529 |
| Bargain purchase gain | | – | (15,154) | – | (15,154) |
| Provision for mortgage investment loss | | – | – | 200 | – |
| Net unrealized foreign exchange gain | | (48) | – | (11) | – |
| Net change in non-cash operating items | 13 | (1,637) | 2,416 | (3,038) | 867 |
| | | 15,695 | 9,037 | 30,265 | 14,885 |
| FINANCING ACTIVITIES | | | | | |
| Net credit facility repayments | | 67,311 | 350 | 63,010 | (463) |
| Net proceeds from issuance of convertible debentures | | 42,774 | – | 86,437 | – |
| Interest paid | | (2,753) | (2,510) | (7,629) | (4,129) |
| Dividends paid to shareholders | | (11,592) | (6,527) | (23,220) | (13,065) |
| Repurchase of common shares | | – | (767) | (331) | (1,523) |
| | | 95,740 | (9,454) | 118,267 | (19,180) |
| INVESTING ACTIVITIES | | | | | |
| Proceeds from disposition of foreclosed properties held for sale | | 457 | 249 | 457 | 720 |
| Fundings of other investments, net of mortgage syndications | | (33,148) | – | (48,179) | – |
| Discharges of other investments, net of mortgage syndications | | 1,030 | – | 1,030 | – |
| Fundings of mortgage investments, net of mortgage syndications | | (180,847) | (77,300) | (240,615) | (136,646) |
| Discharges of mortgage investments, net of mortgage syndications | | 101,430 | 88,913 | 139,191 | 151,758 |
| | | (111,078) | 11,862 | (148,116) | 15,832 |
| Increase in cash and cash equivalents | | 357 | 11,445 | 416 | 11,537 |
| Cash and cash equivalents, beginning of period | | 120 | 232 | 61 | 140 |
| Cash and cash equivalents, end of period | | \$ 477 | \$ 11,677 | \$ 477 | \$ 11,677 |

See accompanying notes to the unaudited condensed consolidated interim financial statements.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

1. CORPORATE INFORMATION

Timbercreek Financial Corp. (the "Company", "TF" or "Timbercreek Financial") is a mortgage investment corporation domiciled in Canada. The Company is incorporated under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "TF".

On June 30, 2016, Timbercreek Mortgage Investment Corporation ("TMIC") and Timbercreek Senior Mortgage Investment Corporation ("TSMIC") amalgamated to form the Company under the laws of the Province of Ontario by Articles of Arrangement (the "Amalgamation"). Details of the Amalgamation are outlined in note 4. For purposes of financial reporting, TMIC was considered the acquirer and, as a result, these financial statements reflect the assets, liabilities and results from operations of TMIC prior to June 30, 2016, the effective date of the Amalgamation (the "Effective Date"). References to the Company relating to periods prior to June 30, 2016 refer to TMIC. Results related to TSMIC's operations are included in the Company's financial results beginning June 30, 2016.

The investment objective of the Company is to secure and grow a diversified portfolio of high quality mortgage and other investments, generating an attractive risk adjusted return and monthly dividend payments to shareholders balanced by a strong focus on capital preservation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard 34, Interim Financial Reporting. The presentation of these unaudited condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the notes to the audited consolidated financial statements for the year ended December 31, 2016 since these financial statements do not contain all disclosures required by IFRS for annual financial statements. These unaudited condensed consolidated interim financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented unaudited condensed.

Certain of the comparative amounts have been reclassified to conform with the current period's presentation. Other investments have been separately presented on the statement of financial position as compared to the prior period where it was presented with mortgage investments. In addition, fees and other income, including mortgage syndications have been presented with gross interest and other income, including mortgage syndications. In the prior periods, these amounts were presented separately.

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors on August 9, 2017.

(b) Principles of consolidation

These unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund. The financial statements of the

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

subsidiaries included in these unaudited condensed consolidated interim financial statements are from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated upon consolidation.

(c) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for foreclosed properties held for sale and marketable securities, which are measured at fair value through profit and loss ("FVTPL") on each reporting date.

(d) Critical accounting estimates, assumptions and judgments

In the preparation of these unaudited condensed consolidated interim financial statements, Timbercreek Asset Management Inc. (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.

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 the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these unaudited condensed consolidated interim financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the unaudited condensed consolidated interim financial statements are as follows:

(i) 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 appraisals are used to measure fair values, the Manager will assess 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.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

The information about the assumptions made in measuring fair value is included in the following notes:

Note 5 – Mortgage and other investments, including mortgage syndications;

Note 6 – Foreclosed properties held for sale; and

Note 18 – Fair value measurements.

(ii) Mortgage investments

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

The Company applies judgment in assessing the relationship between parties with which it enters into participation agreements in order to assess the derecognition of transfers relating to mortgage investments.

(iii) Convertible debentures

The Manager exercises judgement in determining the allocation of the debt and liability components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

(iv) Business Combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 4 which was accounted for in accordance with IFRS 3 – Business Combinations (“IFRS 3”). The Manager considered the guidance in IFRS 3 in determining which entity is considered the “acquirer” based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same, except for as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(a) Other Investments

Other investments may include investments such as collateralized loans, participating mortgages and marketable securities. Other investments, with the exception of marketable securities, are classified as loans and receivables and are measured at amortized cost. Marketable securities are classified at FVTPL.

(b) Gross interest and other income

Gross interest and other income includes interest earned on the Company's mortgage and other investments, interest earned on cash and cash equivalents and lender fees. Interest income earned on the mortgage and other investments is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgage and other investments and are amortized to profit and loss over the expected life of the specific mortgage and other investment using the effective interest rate method. Forfeited lender fees are taken to profit and loss at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

(c) Foreign exchange forward contract

The Company holds derivative financial instruments to economically hedge its foreign currency risk exposure for its mortgage and other investments. Derivatives are recognized initially at fair value, with transaction costs recognized in net income and comprehensive income as incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss at the end of each reporting period. Any resulting gain or loss is recognized in the statement of net income and comprehensive income unless the derivative is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for its derivative instrument as an accounting hedge.

(d) Changes in accounting policies

(i) Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016, the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. Upon adoption of the amendment, the Company's financial statements were not materially impacted.

(ii) Disclosure Initiative: Amendments to International Accounting Standard ("IAS") 7

On January 7, 2016, the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company has provided additional disclosure in note 7 to comply with the requirements.

(e) Future changes in accounting policies

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

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In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(i) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

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

The Company will adopt IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

The Company has commenced the evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at June 30, 2017, the principal areas impacted are: classification of financial assets and impairment of financial assets. IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company does not currently apply hedge accounting in its consolidated financial statements.

The Company expects to complete the assessment of the impact of adopting IFRS 9 during the second half of 2017.

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

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

4. ACQUISITION OF TSMIC

On June 30, 2016, TMIC and TSMIC amalgamated to form the Company. The synergies and scale created from the combined entity is expected to result in a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

For financial reporting purposes, the Amalgamation was considered a business combination in accordance with IFRS 3 with TMIC considered as the "acquirer" and TSMIC as the "acquiree". Accordingly, on the Effective Date, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC. The Amalgamation resulted in each TMIC shareholder receiving one TF share for each TMIC share held and each TSMIC shareholder receiving 1.035 TF shares for each TSMIC share held. The total purchase price paid by TMIC consisted of 32,551,941 common shares of TMIC (representing 31,451,154 TSMIC shares at an exchange ratio of 1:1.035) and were valued at \$8.34 per share, representing TMIC's closing share price as at June 29, 2016. Under IFRS 3, the share consideration is required to be measured based on the trading price of TMIC's common shares on the closing date of the business combination; whereas, the actual consideration pursuant to the Amalgamation was based on the adjusted book value per share of TMIC and TSMIC as at March 31, 2016.

The Company recorded the identifiable assets and liabilities of TSMIC at fair value resulting in the recognition of a bargain purchase gain of \$15,154, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

The fair value of the acquired identifiable net assets and bargain purchase gain are as follows:

| | Total |
|---|-------------------|
| Fair value of net assets acquired | |
| Mortgage investments, including mortgage syndications | \$ 545,112 |
| Other assets | 606 |
| Accounts payable and accrued expenses | (1,303) |
| Dividends payable | (1,573) |
| Due to Manager | (441) |
| Mortgage funding holdbacks | (15) |
| Prepaid mortgage interest | (504) |
| Credit facility | (181,650) |
| Mortgage syndication liabilities | (73,595) |
| Total net assets acquired | \$ 286,637 |
| Consideration transferred | |
| 32,551,941 common shares issued | \$ 271,483 |
| Excess of net assets acquired over consideration transferred (bargain purchase gain) | \$ 15,154 |

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility (note 7)
- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of \$7,438 (note 11) which was settled in cash of \$910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of \$1,207 accrued for the period prior to the Amalgamation was payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016. The new management agreement has a lower management fee, a servicing fee and does not have any annual performance fee.
- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of, expenses such as, filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. As at June 30, 2016, TMIC's share of transaction costs relating to the Amalgamation was \$1,573.

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's net interest income for 2016 would have been approximately \$75,966 and the net income for the year would have been \$53,704, inclusive of \$4,803 of net non-recurring gains related to the Amalgamation.

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In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

As part of the Amalgamation, all mortgage investments held by TSMIC were acquired by TMIC. As the TMIC and TSMIC portfolios are not maintained separately and had various co-invested mortgage investments, it is impracticable for TF to disclose the income and expenses of TSMIC since the acquisition date included in the unaudited condensed consolidated interim statement of net income and comprehensive income.

5. MORTGAGE AND OTHER INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

(a) Mortgage investments

| As at June 30, 2017 | Note | Gross mortgage investments | Mortgage syndication liabilities | Net |
|---|--------------|---|---|---------------------|
| Mortgage investments, including mortgage syndications | 5(b) and (c) | \$ 1,669,631 | \$ (571,506) | \$ 1,098,125 |
| Interest receivable | | 19,360 | (2,377) | 16,983 |
| | | 1,688,991 | (573,883) | 1,115,108 |
| Unamortized lender fees | | (7,423) | 1,071 | (6,352) |
| Allowance for mortgage investments loss | 5(d) | (481) | - | (481) |
| | | \$ 1,681,087 | \$ (572,812) | \$ 1,108,275 |

| As at December 31, 2016 | | Gross mortgage investments | Mortgage syndication liabilities | Net |
|---|----|---|---|---------------------|
| Mortgage investments, including mortgage syndications | \$ | 1,542,198 | \$ (542,052) | \$ 1,000,146 |
| Interest receivable | | 16,536 | (2,452) | 14,084 |
| | | 1,558,734 | (544,504) | 1,014,230 |
| Unamortized lender fees | | (7,735) | 999 | (6,736) |
| Allowance for mortgage investments loss | | (1,150) | - | (1,150) |
| | | \$ 1,549,849 | \$ (543,505) | \$ 1,006,344 |

As at June 30, 2017, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$162,730 (December 31, 2016 – \$160,715) of which \$73,675 (December 31, 2016 – \$82,325) belongs to the Company's syndicated partners.

(b) Net mortgage investments

| | % | June 30, 2017 | % | December 31, 2016 |
|---------------------------------|------------|----------------------|------------|--------------------------|
| Interest in first mortgages | 92 | \$ 1,008,764 | 84 | \$ 841,108 |
| Interest in non-first mortgages | 8 | 89,361 | 16 | 159,038 |
| | 100 | \$ 1,098,125 | 100 | \$ 1,000,146 |

The mortgage investments are secured by real property and will mature between 2017 and 2022 (December 31, 2016 – 2017 and 2022). During the three and six months ended June 30, 2017 ("Q2 2017" and "YTD 2017"), the Company generated net interest income and other income of \$20,414 and \$40,582 (three and six months ended June 30, 2016 "Q2 2016" and "YTD 2016" - \$10,922 and \$21,720). During Q2 2017 and YTD 2017, the weighted average interest rate earned on net mortgage investments was 7.2% (Q2 2016 – 9.1%; YTD 2016 – 9.0%).

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A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

During Q2 2017 and YTD 2017, the Company received total lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$1,955 and \$3,194 (Q2 2016 - \$1,189; YTD 2016 - \$2,122), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

Principal repayments, net of mortgage syndications, based on contractual maturity dates are as follows:

| | | |
|---------------------|-----------|------------------|
| 2017 | \$ | 327,033 |
| 2018 | | 337,650 |
| 2019 | | 293,241 |
| 2020 | | 109,411 |
| 2021 and thereafter | | 30,790 |
| Total | \$ | 1,098,125 |

(c) Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 18).

(d) Allowance for mortgage investments loss

As at June 30, 2017, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment other than those previously recorded. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether the actual future losses are expected to be greater or less than the amounts calculated. During Q2 2017 and YTD 2017, nil and \$200 collective impairment was recognized (Q2 2016 and YTD 2016 - nil).

During Q2 2017, the Company applied a specific impairment provision of \$869 and reclassified \$33 from a specific impairment to a collective unrealized allowance. As at June 30, 2017, the Company has no specific unrealized impairment allowance (December 31, 2016 - \$900) and a collective unrealized allowance of \$481 (December 31, 2016 - \$250).

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As at June 30, 2017, the borrower of a net first mortgage investment of \$26,596 (December 31, 2016 – \$27,644) located in Saskatchewan has filed for protection under the Companies' Creditor Arrangement Act in order to stay all creditors and prepare a plan of arrangement. The Manager has evaluated the current status of the borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment. As part of the arrangement process, \$1,559 of the net first mortgage investments was assumed by a new borrower.

As at June 30, 2017, the Company has filed for receivership against a borrower of a first mortgage investment of \$3,693 (2016 – \$3,363) located in Ontario. The Manager has evaluated the current status of the borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

(e) Other investments

During Q2 2017 and YTD 2017, the Company generated income of \$1,038 and \$1,638 (Q2 2016 and YTD 2016 – nil). During Q2 2017 and YTD 2017, the weighted average yield earned on other investments was 10.9% and 11.1% (Q2 2016 and YTD 2016 – nil). During Q2 2017 and YTD 2017, the Company received total lender fees on other investments, of \$327 and \$447 (Q2 2016 and YTD 2016 – nil), which are amortized to interest income over the term of the related other investments using the effective interest rate method.

As at June 30, 2017, the Company held \$2,942 (December 31, 2016 – nil) in marketable securities.

6. FORECLOSED PROPERTIES HELD FOR SALE

As at June 30, 2017, there are two foreclosed properties held for sale ("FPHFS") (December 31, 2016 – three) which are recorded at their fair value of \$6,041 (December 31, 2016 – \$11,041). The fair value has been categorized as a level 3 fair value, based on inputs to the valuation techniques used based on internal fair value assessments.

During YTD 2017, the Company disposed of a foreclosed property with a book value of \$5,000 resulting in a net loss of \$143. As part of the sale, the Company issued the purchaser a mortgage of \$4,400 bearing interest at 4% per annum and due in 2020. During YTD 2016, the Company sold five units for proceeds of \$720 within a foreclosed residential property.

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The fair value measurements have been categorized as a level 3 fair value based on inputs to the valuation techniques used. The key valuation techniques used in measuring the fair values of the FPHFS are set out in the following table:

| Valuation Technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurement |
|---|--|---|
| Direct Capitalization Method. The valuation method is based on stabilized net operating income ('NOI') divided by an overall capitalization rate. | <ul style="list-style-type: none"> Stabilized NOI is based on the location, type and quality of the property and supported by current market rents for similar properties, adjusted for estimated vacancy rates and expected operating costs. Capitalization rate is based on location, size and quality of the property and takes into account market data at the valuation date. | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> Stabilized NOI was higher (lower) Overall capitalization rates were lower (higher) |
| Direct Sales Comparison | The fair value is based on comparison to recent sales of properties of similar types, locations and quality. | The significant unobservable input is adjustments due to characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared. |

The changes in the FPHFS during Q2 2017 and YTD 2017 and Q2 2016 and YTD 2016 were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------------|--------------------------------|------------------|------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Balance, beginning of period | \$ 11,041 | \$ 12,365 | \$ 11,041 | \$ 12,836 |
| Disposition of FPHFS | (5,000) | (249) | (5,000) | (720) |
| Balance, end of period | \$ 6,041 | \$ 12,116 | \$ 6,041 | \$ 12,116 |

7. CREDIT FACILITY

| | June 30, 2017 | December 31, 2016 |
|------------------------------|-------------------|-------------------|
| Credit facility balance | \$ 363,590 | \$ 300,580 |
| Unamortized financing costs | (1,184) | (1,580) |
| Total credit facility | \$ 362,406 | \$ 299,000 |

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement, effective June 30, 2016, which will mature in May 2018. The Credit Facility is secured by a general security agreement over the Company's assets and its subsidiaries. During Q2 2017, the Company increased the credit facility by \$50,000 through the utilization of the accordion feature. The new credit facility has an available credit limit of \$400,000 (December 31, 2016 – \$350,000) with interest at either the prime rate of interest plus 1.25% per annum (December 31, 2016– prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2016 – 2.25%). The new credit facility has a standby fee of 0.5625% per annum (December 31, 2016 – 0.5625%) on the unutilized credit facility balance. As at June 30,

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2017, the Company's qualified credit facility limit is \$385,266 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at June 30, 2017, the Company has incurred financing costs of \$2,289 relating to the credit facility, which includes upfront fees, legal costs and other costs. During Q2 2017 and YTD 2017, the Company incurred additional financing costs of \$141 and \$176 relating to the accordion feature and other costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2017 and YTD 2017, included in financing costs is interest on the credit facility of \$2,538 and \$4,998 (Q2 2016 – \$445; YTD 2016 – \$910) and financing costs amortization of \$293 and \$571 (Q2 2016 – \$155; YTD 2016 – \$217).

8. CONVERTIBLE DEBENTURES

(a) On February 25, 2014, TMIC completed a public offering of \$30,000, plus an over-allotment of \$4,500 on March 3, 2014, of 6.35% convertible unsecured subordinated debentures for net proceeds of \$32,533 (the "2014 debentures"). The 2014 debentures mature on March 31, 2019 and pays with interest semi-annually on March 31 and September 30 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.25 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures. The 2014 debentures are redeemable on and after March 31, 2017 and prior to the maturity date by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 2014 debentures in the aggregate principal amount of \$34,500.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$545, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$34,500. The issue costs of \$1,967 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

(b) On July 29, 2016, the Company completed a public offering of \$40,000, plus an over-allotment option of \$5,800 on August 5, 2016, of 5.40% convertible unsecured subordinated debentures for net proceeds of \$43,498 (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pays interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

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The 2016 debentures are redeemable on and after July 31, 2019 and prior to July 31, 2020, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45,800. The issue costs of \$2,302 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (c) On February 7, 2017, the Company completed a public offering of \$40,000, plus an over-allotment option of \$6,000, of 5.45% convertible unsecured subordinated debentures for net proceeds of \$43,663 (the "February 2017 debentures"). The February 2017 debentures mature on March 31, 2022 and pays interest semi-annually on September 30 and March 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The February 2017 debentures are redeemable on and after March 31, 2020 and prior to March 31, 2021, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$640, has been recorded as equity with the remainder allocated to long-term debt. During Q2 2017, the Company revised its estimate of the liability component to adjust for an immaterial amount resulting in the allocation to equity being reduced from \$1,700 to \$640. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$46,000. The issue costs of \$2,240 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (d) On June 13, 2017, the Company completed a public offering of \$40,000, plus an over-allotment option of \$5,000 on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42,774 (the "June 2017 debentures"). The June 2017 debentures mature on June 30, 2024 and pays interest semi-annually on June 30 and December 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.10 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The June 2017 debentures are redeemable on and after June 30, 2020 and prior to June 30, 2022, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

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Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$590, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45,000. The issue costs of \$2,226 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

The debentures are comprised of as follows:

| | June 30, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| Issued | \$ 171,300 | \$ 80,300 |
| Issue costs, net of amortization | (6,976) | (3,117) |
| Equity component | (2,043) | (814) |
| Issue costs attributed to equity component | 103 | 43 |
| Cumulative accretion | 479 | 345 |
| Debentures, end of period | \$ 162,863 | \$ 76,757 |

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest rate method. Interest on the debentures is included in financing costs and is made up of the following:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------------|------------------------------|-----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Interest on the convertible debentures | \$ 1,909 | \$ 548 | \$ 3,444 | \$ 1,095 |
| Amortization of issue costs | 334 | 90 | 613 | 181 |
| Accretion of the convertible debentures | 24 | 28 | 134 | 56 |
| Total | \$ 2,267 | \$ 666 | \$ 4,191 | \$ 1,332 |

9. COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings as well as to receive dividends as declared by the Board of Directors.

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

As a result of the Amalgamation, 40,523,728 TF common shares were issued to shareholders of TMIC at a ratio of one-to-one; whereas 32,551,941 TF common shares were issued to shareholders of TSMIC at an exchange ratio of 1:1.035. For financial reporting purposes, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC (note 4).

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

| | Note | Six months ended June 30, | |
|--|------|---------------------------|-------------------|
| | | 2017 | 2016 |
| Balance, beginning of period | | 73,858,499 | 40,523,728 |
| Common shares issued as part of acquisition of TSMIC | 4 | – | 32,551,941 |
| Common shares issued to the Manager | 11 | – | 782,830 |
| Repurchased | | (37,603) | (187,564) |
| Issued under dividend reinvestment plan | | 230,340 | 187,564 |
| Balance, end of period | | 74,051,236 | 73,858,499 |

(a) Dividend reinvestment plan

In connection with the Amalgamation, the DRIP under TMIC was terminated effective June 22, 2016 and a new DRIP was subsequently adopted by the Company on July 13, 2016.

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be issued from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. During Q2 2017 and YTD 2017, nil and 37,603 common shares were purchased on the open market (Q2 2016 – 91,475; YTD 2016 – 187,564) and 118,020 and 192,737 (Q2 2016 and YTD 2016 – nil) were issued from treasury.

(b) Dividends to holders of common shares

The Company intends to pay dividends monthly within 15 days following the end of each month. During Q2 2017 and YTD 2017, TF declared dividends of \$12,656 and \$25,290, or \$0.17 and \$0.34 per share, to the holders of TF common shares (Q2 2016 – \$7,294, \$0.18 per share; YTD 2016 – \$14,589, \$0.36 per share). As at June 30, 2017, \$4,221 in aggregate dividends (December 31, 2016 – \$4,210) was payable to the holders of common shares of TF by the Company. Subsequent to June 30, 2017, the Board of Directors of the Company declared dividends of \$0.057 per common share to be paid on August 15, 2017 to the common shareholders of record on July 31, 2017.

10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

Pursuant to the Amalgamation, on the Effective Date, the deferred share unit (“DSU”) plan for TMIC was terminated and the outstanding DSUs were settled by TMIC in accordance with the terms of the respective plans. As a result, TMIC’s outstanding DSUs of 30,497 were cancelled and \$300 was paid to the directors in July 2016.

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Commencing June 30, 2016, the Company instituted a non-executive director deferred share unit plan, whereby a director can elect up to 100% of the compensation be paid in the form of DSUs, credited quarterly in arrears. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value of the DSU is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). The directors are entitled to also accumulate additional DSUs equal to the monthly cash dividends, on the DSUs already held by that director determined based on the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director DSU accounts will be credited with the number of DSUs calculated by multiplying the total compensation payable in DSUs divided by the Fair Market Value. Each director is also entitled to an additional 25% of DSUs that are issued in the quarter up to a maximum value of \$5,000 per annum.

The Plan will pay a lump sum payment in cash equal to the number of DSUs held by each director multiplied by the Fair Market Value as of the 24th business day after publication of the Company's financial statements following a director's departure from the Board of Directors.

During Q2 2017 and YTD 2017, 5,771 and 11,125 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$59 and \$110 based on a Fair Market Value of \$9.22 per common share. As at June 30, 2017, \$47 quarterly compensation was granted in DSUs, which will be issued subsequent to June 30, 2017 at the Fair Market Value.

11. MANAGEMENT AND SERVICING FEES

Concurrently with the Amalgamation, TMIC's management agreement with the Manager was terminated and a new management agreement was entered on the Effective Date. TMIC agreed to pay the Manager a termination fee of \$7,438 as compensation for the removal of the performance fees previously incurred by TMIC annually and the reduced management fee under the new agreement. The termination fee was settled in cash of \$910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Under IFRS 2 – Share-based Payment, the share consideration is required to be measured based on the trading price of TMIC common shares on the settlement date, whereas, the actual consideration was based on the book value of TMIC at March 31, 2016.

The new management agreement has a term of 10 years and is automatically renewed for successive five year terms at the expiration of the initial term and pays (i) management fee equals to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes, and (ii) servicing fee equals to 0.10% of the amount of any senior tranche of a mortgage that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion. Gross assets are defined as the total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

During Q2 2016 and YTD 2016, the Company accrued \$610 and \$1,207 in performance fees. Upon the termination of the management agreement, \$1,207 of performance fees accrued up to June 29, 2016 prior to the Amalgamation were paid to the Manager in August 2016.

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During Q2 2017 and YTD 2017, the Company incurred management fees plus applicable taxes of \$2,564 and \$5,062 (Q2 2016 – \$1,559; YTD 2016 – \$3,120) and servicing fees plus applicable taxes of \$162 and \$319 (Q2 2016 and YTD 2016 – nil).

12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing total net income and comprehensive income by the weighted average number of common shares during the period.

In accordance with IFRS, convertible debentures are considered for potential dilution in the calculation of the diluted earnings per share. Each series of convertible debentures is considered individually and only those with dilutive effect on earnings are included in the diluted earnings per share calculation. Convertible debentures that are considered dilutive are required by IFRS to be included in the diluted earnings per share calculation notwithstanding that the conversion price of such convertible debentures may exceed the market price and book value of the Company's common shares.

Diluted earnings per share are calculated by adding back the interest expense relating to the convertible debentures to total net income and comprehensive income and increasing the weighted average number of common shares by treating the debentures as if they had been converted on the later of the beginning of the reporting period or issuance date.

The following table shows the computation of per share amounts:

| | Three months ended | | Six months ended | |
|--|--------------------|----------------|------------------|----------------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income and comprehensive income | \$ 13,135 | \$ 13,342 | \$ 26,081 | \$ 20,518 |
| Adjustment for dilutive effect of convertible debentures | 1,454 | 667 | 2,703 | 1,332 |
| Net income and comprehensive income (diluted) | \$ 14,589 | \$ 14,009 | \$ 28,784 | \$ 21,850 |
| Weighted average number of common shares (basic) | 73,993,878 | 40,890,044 | 73,939,307 | 40,706,886 |
| Convertible debentures* | 9,134,328 | 3,066,667 | 8,148,099 | 3,066,667 |
| Weighted average number of common shares (diluted) | 83,128,206 | 43,956,711 | 82,087,406 | 43,773,553 |
| Earnings per share – basic | \$ 0.18 | \$ 0.33 | \$ 0.35 | \$ 0.50 |
| Earnings per share – diluted | \$ 0.18 | \$ 0.32 | \$ 0.35 | \$ 0.50 |

* 2014 and June 2017 debentures are excluded as they are anti-dilutive

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13. CHANGE IN NON-CASH OPERATING ITEMS

| | Three months ended | | Six months ended | |
|---------------------------------------|--------------------|----------|------------------|--------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Change in non-cash operating items: | | | | |
| Other assets | \$ (3,420) | \$ (42) | \$ (6,085) | \$ 617 |
| Accounts payable and accrued expenses | 42 | 1,601 | 190 | 1,763 |
| Due to Manager | 60 | 1,147 | 134 | (684) |
| Prepaid mortgage interest | 1,888 | (245) | 2,274 | (732) |
| Mortgage funding holdbacks | (207) | (45) | 449 | (97) |
| | \$ (1,637) | \$ 2,416 | \$ (3,038) | \$ 867 |

14. RELATED PARTY TRANSACTIONS

- (a) As at June 30, 2017, Due to Manager includes mainly management and servicing fees payable of \$953 (December 31, 2016 - \$819).
- (b) As at June 30, 2017, included in other assets is \$3,542 (December 31, 2016 - \$819) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.
- (c) As at June 30, 2017, the Company has four mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:
- A mortgage investment with a total gross commitment of \$84,108 (December 31, 2016 - \$84,108). The Company's share of the commitment is \$29,108 (December 31, 2016 - \$29,108), of which \$10,031 (December 31, 2016 - \$7,270) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$196 and \$363 (Q2 2016 - \$66; YTD 2016 - \$118) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$15,600 (December 31, 2016 - \$15,600). The Company's share of the commitment is \$5,970 (December 31, 2016 - \$5,970), of which \$3,636 (December 31, 2016 - \$3,634) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$85 and \$170 (Q2 2016 - \$85; YTD 2016 - \$170) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$4,264 (December 31, 2016 - \$6,000). The Company's share of the commitment is \$4,264 (December 31, 2016 - \$5,100), of which \$1,901 (December 31, 2016 - \$2,029) has been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$39 and \$79 (Q2 2016 and YTD 2016 - nil) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$1,920 (December 31, 2016 - \$1,920). The Company's share of the commitment is \$1,920 (December 31, 2016 - \$1,920), of which \$1,920 (December 31, 2016 - \$1,920) has

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In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

been funded as at June 30, 2017. During Q2 2017 and YTD 2017, the Company has recognized net interest income of \$29 and \$58 (Q2 2016 and YTD 2016 - nil) from this mortgage investment during the period.

- (d) As at June 30, 2017, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in 20 (December 31, 2016 - ten) gross mortgage investments totaling \$376,669 (December 31, 2016 - \$254,935). The Company's share in these gross mortgage investments is \$170,779 (December 31, 2016 - \$109,493). Included in these amounts are two net mortgage investments (December 31, 2016 - two) of \$18,968 (December 31, 2016 - \$17,681) loaned to a limited partnership in which T4Q is invested.

The above related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. CAPITAL RISK MANAGEMENT

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, debentures 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.

The Company's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. There have been no changes in the process over the previous year.

At June 30, 2017, the Company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facility, the Company is required to meet certain financial covenants, including a minimum interest coverage ratio, minimum adjusted shareholders' equity and maximum non-debenture indebtedness to adjusted shareholders' equity.

16. RISK MANAGEMENT

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Company's direct control. The Manager and Board of Directors play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

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

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of June 30, 2017, \$97,679 of net mortgage investments bear interest at variable rates. Of these, \$83,595 of net mortgage investments include a "floor rate" to protect their negative exposure or a "ceiling rate", while three mortgage investments totaling \$14,084 bear interest at a variable rate without a "floor rate". If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$70. However, if there were a 0.50% increase in interest rates, with all other variables constant, it would result in an increase in net income of \$426. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

As of June 30, 2017, \$61,971 of the other investments bear interest at fixed rates.

In addition, the Company is exposed to interest rate risk on the credit facility, which has a balance of \$363,590 as at June 30, 2017. Based on the outstanding credit facility balance as at June 30, 2017, and assuming it was outstanding for the entire period a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1,818 annually.

The Company's other assets, interest receivable, accounts payable and accrued expenses, prepaid mortgage interest, mortgage funding holdbacks, dividends payable and due to Manager have no exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

(b) Currency risk

Currency risk is the risk that the carrying value of net mortgage investments and other investments will fluctuate due to changes in foreign exchange rates. Currency risk arises from net mortgage investments and other investments that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Company.

The maximum exposure to currency risk at June 30, 2017 is the carrying values of its net mortgage and other investments that are not denominated in Canadian dollars was \$19,916 (December 31, 2016 – \$3,941). If there was a weakening or strengthening of the Canadian dollar by 1%, with all other variables constant, this would increase or decrease net income by \$199 annually.

The Company holds derivative financial instruments for the purpose of limiting the risks relating to the variability of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward contract agreements, the Company exchanges a fixed amount of U.S. dollars for Canadian dollars. As at June 30, 2017, the Company has two forward contracts outstanding with notional values of US\$3,000 and US\$5,050, with foreign exchange rates of 1.36 and 1.35, respectively, and maturity dates of May 22, 2018 and November 1, 2018, respectively. The fair value of the foreign currency forward contract as at June 30, 2017 is an asset of \$486 which is included in other assets in the statement of financial position. The valuation of the foreign currency forward contracts was computed using Level 2 inputs.

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Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(c) Credit risk

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

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

The maximum exposure to credit risk at June 30, 2017 is the carrying values of its net mortgage and other investments, in addition to interest receivable recorded within other assets of \$2,729 (December 31, 2016 – \$951), amounting to \$1,162,549 (December 31, 2016 – \$1,025,129). The Company has recourse under these mortgage investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(d) Liquidity risk

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

The following are the contractual maturities of financial liabilities as at June 30, 2017, including expected interest payments:

| June 30, 2017 | Carrying value | Contractual cash flow | Within a year | Following year | 3–5 years |
|--|-------------------|-----------------------|-------------------|-----------------|-------------------|
| Accounts payable and accrued expenses | \$ 3,514 | \$ 3,514 | \$ 3,514 | \$ – | \$ – |
| Dividends payable | 4,221 | 4,221 | 4,221 | – | – |
| Due to Manager | 953 | 953 | 953 | – | – |
| Mortgage funding holdbacks | 586 | 586 | 586 | – | – |
| Prepaid mortgage interest | 2,956 | 2,956 | 2,956 | – | – |
| Credit facility ¹ | 363,590 | 376,755 | 376,755 | – | – |
| Convertible debentures ² | 162,863 | 190,684 | 42,048 | 7,365 | 141,271 |
| | \$ 538,683 | \$ 579,669 | \$ 431,033 | \$ 7,365 | \$ 141,271 |
| Unadvanced mortgage commitments ³ | – | 162,730 | 162,730 | – | – |
| Total contractual liabilities | \$ 538,683 | \$ 742,399 | \$ 593,763 | \$ 7,365 | \$ 141,271 |

1 Includes interest based upon the current prime rate of interest plus 1.25% on the credit facility assuming the outstanding balance is not repaid until its maturity on May 6, 2018.

2 The 2014 debentures are assumed to be redeemed on March 31, 2017 as they are redeemable on and after March 31, 2017, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, and the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.

3 Unadvanced mortgage commitments include syndication commitments of which \$73,675 belongs to the Company's syndicated partners.

As at June 30, 2017, the Company had a cash position of \$477 (December 31, 2016 – \$61) and an unutilized credit facility balance of \$21,676 (December 31, 2016 – \$49,420). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is \$73,675 (December 31, 2016 – \$82,325) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

17. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

| As at June 30, 2017 | Carrying Value | | | Fair value |
|---|----------------------|------------------------------------|-----------------------------|------------|
| | Loans and receivable | Fair value through profit and loss | Other financial liabilities | |
| Assets measured at fair value | | | | |
| Foreclosed properties held for sale | \$ – | \$ 6,041 | \$ – | \$ 6,041 |
| Assets not measured at fair value | | | | |
| Cash and cash equivalents | 477 | – | – | 477 |
| Other assets | 8,256 | – | – | 8,256 |
| Mortgage investments, including mortgage syndications | 1,681,087 | – | – | 1,681,087 |
| Other investments | 61,866 | 2,942 | – | 64,808 |
| Financial liabilities not measured at fair value | | | | |
| Accounts payable and accrued expenses | – | – | 3,514 | 3,514 |
| Dividends payable | – | – | 4,221 | 4,221 |
| Due to Manager | – | – | 953 | 953 |
| Mortgage funding holdbacks | – | – | 586 | 586 |
| Prepaid mortgage interest | – | – | 2,956 | 2,956 |
| Credit facility | – | – | 362,406 | 363,590 |
| Convertible debentures | – | – | 162,863 | 171,922 |
| Mortgage syndication liabilities | – | – | 572,812 | 572,812 |

Notes to the Unaudited Condensed Consolidated Interim Financial Statements Three and six months ended June 30, 2017 and 2016

In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

| As at December 31, 2016 | Carrying Value | | | Fair value |
|---|----------------------|------------------------------------|-----------------------------|------------|
| | Loans and receivable | Fair value through profit and loss | Other financial liabilities | |
| Assets measured at fair value | | | | |
| Foreclosed properties held for sale | \$ – | \$ 11,041 | \$ – | 11,041 |
| Assets not measured at fair value | | | | |
| Cash and cash equivalents | 61 | – | – | 61 |
| Other assets | 3,191 | – | – | 3,191 |
| Mortgage investments, including mortgage syndications | 1,549,849 | – | – | 1,549,849 |
| Other investments | 9,828 | – | – | 9,828 |
| Financial liabilities not measured at fair value | | | | |
| Accounts payable and accrued expenses | – | – | 2,188 | 2,188 |
| Dividends payable | – | – | 4,210 | 4,210 |
| Due to Manager | – | – | 819 | 819 |
| Mortgage funding holdbacks | – | – | 137 | 137 |
| Prepaid mortgage interest | – | – | 682 | 682 |
| Credit facility | – | – | 299,000 | 300,581 |
| Convertible debentures | – | – | 76,757 | 80,416 |
| Mortgage syndication liabilities | – | – | 543,505 | 543,505 |

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage investments, other investments and mortgage syndication liabilities

There is no quoted price in an active market for the mortgage investments, other investments excluding marketable securities or mortgage syndication liabilities. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage and other investments excluding marketable securities of same or similar terms. Typically, the fair value of these mortgage investments, other investments excluding marketable securities and mortgage syndication liabilities approximate their carrying values given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments and other investments excluding marketable securities is based on level 3 inputs.

The fair value of the marketable securities is based on a level 1 input, which is the market closing price of the marketable securities at the reporting date.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during June 30, 2017.

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In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

(b) Other financial assets and liabilities

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

(c) Convertible debentures

The fair value of the convertible debentures is based on a level 1 input, which is the market closing price of convertible debentures at the reporting date.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during June 30, 2017.

18. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During Q2 2017 and YTD 2017, the compensation expense of the members of the Board of Directors amounts to \$59 and \$110 (Q2 2016 - \$68; YTD 2016 - \$132), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

19. 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 materially adverse effect on the Company's financial position.