Condensed Consolidated Interim Financial Statements of

Timbercreek Financial

Three months and six months ended June 30, 2016 and 2015

Timbercreek
Financial

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 11,677,437	$ 139,871
Other assets (note 13(b))	2,656,530	3,054,095
Mortgage investments, including mortgage syndications (note 5)	1,391,201,234	750,703,077
Foreclosed properties held for sale (note 6)	12,116,019	12,836,466
Total assets	$ 1,417,651,220	$ 766,733,509
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 4,147,828	$ 1,103,565
Dividends payable (note 9(b))	4,003,981	2,431,424
Due to Manager (note 13(a))	2,182,735	2,425,700
Mortgage funding holdbacks	740,772	821,876
Prepaid mortgage interest	942,457	1,169,805
Credit facility (note 7)	232,882,627	53,624,816
Convertible debentures (note 8)	33,014,582	32,778,187
Mortgage syndication liabilities (note 5)	493,465,155	310,048,650
Total liabilities	771,380,137	404,404,023
Shareholders' equity	646,271,083	362,329,486
Total liabilities and equity	$ 1,417,651,220	$ 766,733,509
Commitments and contingencies (notes 5 and 15)		
Subsequent events (notes 9, 10 and 16)		

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income:				
Interest, including mortgage syndications	$ 14,216,454	$ 12,576,503	$ 27,434,172	$ 24,428,601
Fees and other income, including mortgage syndications	1,398,207	1,926,573	2,621,713	3,147,611
Gross interest income	15,614,661	14,503,076	30,055,885	27,576,212
Interest and fees expense on mortgage syndications (note 5(b))	(4,692,613)	(2,970,648)	(8,335,899)	(5,547,759)
Net interest income	10,922,048	11,532,428	21,719,986	22,028,453
Expenses:				
Management fees (note 11)	1,559,351	1,517,833	3,119,715	2,975,714
Performance fees (note 11)	609,679	716,691	1,207,132	1,258,854
General and administrative	248,633	246,954	526,084	486,232
Total expenses	2,417,663	2,481,478	4,852,931	4,720,800
Income from operations	8,504,385	9,050,950	16,867,055	17,307,653
Net operating loss from foreclosed properties held for sale	(38,575)	(29,699)	(32,957)	(112,127)
Fair value adjustment on foreclosed properties held for sale (note 6)	–	(150,000)	–	(150,000)
Termination of management contracts (note 4)	(7,438,418)	–	(7,438,418)	–
Transaction costs relating to the Amalgamation (note 4)	(1,573,239)	–	(1,573,239)	–
Bargain purchase gain (note 4)	15,154,400	–	15,154,400	–
Financing costs:				
Interest on credit facility (note 7)	599,643	477,285	1,126,950	757,950
Interest on convertible debentures (note 8)	667,078	671,714	1,331,770	1,331,563
Total financing costs	1,266,721	1,148,999	2,458,720	2,089,513
Net income and comprehensive income	$ 13,341,832	$ 7,722,252	$ 20,518,121	$ 14,956,013
Earnings per share (note 12)				
Basic	$ 0.33	$ 0.19	$ 0.50	$ 0.37
Diluted	$ 0.32	$ 0.19	$ 0.50	$ 0.37

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

Six months ended June 30, 2016	Common Shares	Retained Earnings	Equity Component of Convertible Debentures	Total
Shareholders' equity, beginning of period	$ 369,162,054	$ (7,377,125)	$ 544,557	$ 362,329,486
Common shares issued as part of the acquisition of TSMIC (note 4)	271,483,216	–	–	271,483,216
Common shares issued to the Manager (note 4)	6,528,802	–	–	6,528,802
Dividends	–	(14,588,542)	–	(14,588,542)
Issuance of common shares under dividend reinvestment plan	1,523,164	–	–	1,523,164
Repurchase of common shares under dividend reinvestment plan	(1,523,164)	–	–	(1,523,164)
Net income and comprehensive income	–	20,518,121	–	20,518,121
Shareholders' equity, end of period	**$ 647,174,072**	**$ (1,447,546)**	**$ 544,557**	**$ 646,271,083**

Six months ended June 30, 2015	Common Shares	Retained Earnings	Equity Component of Convertible Debentures	Total
Shareholders' equity, beginning of period	$ 370,547,438	$ (6,145,974)	$ 544,557	$ 364,946,021
Dividends	–	(14,645,458)	–	(14,645,458)
Issuance of common shares under dividend reinvestment plan	1,552,377	–	–	1,552,377
Repurchase of common shares under dividend reinvestment plan	(1,552,377)	–	–	(1,552,377)
Repurchase of common shares under normal course issuer bid	(284,082)	–	–	(284,082)
Net income and comprehensive income	–	14,956,013	–	14,956,013
Shareholders' equity, end of period	**$ 370,263,356**	**$ (5,835,419)**	**$ 544,557**	**$ 364,972,494**

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six months Ended June 30, 2016	Six months Ended June 30, 2015
OPERATING ACTIVITIES				
Net income and comprehensive income	$ 13,341,832	$ 7,722,252	$ 20,518,121	$ 14,956,013
Amortization of lender fees	(1,055,187)	(1,644,449)	(2,091,702)	(2,706,530)
Lender fees received	1,188,573	1,426,273	2,121,735	2,204,260
Financing costs	1,266,721	1,148,999	2,458,720	2,089,513
Fair value adjustment on foreclosed properties held for sale	–	150,000	–	150,000
Termination of management contracts	6,528,802	–	6,528,802	–
Bargain purchase gain	(15,154,400)	–	(15,154,400)	–
Change in non-cash operating items:				
Interest receivable	161,117	(312,215)	(707,928)	(1,180,961)
Other assets	301,027	805,189	959,886	1,205,882
Accounts payable and accrued expenses	1,600,815	(101,573)	1,762,825	27,435
Due to Manager	1,147,277	712,203	(683,592)	(713,431)
Prepaid mortgage interest	(244,801)	(795,971)	(731,700)	(1,520,372)
Mortgage funding holdbacks	(44,547)	(12,908)	(96,547)	284,471
	9,037,229	**9,097,800**	**14,884,220**	**14,796,280**
FINANCING ACTIVITIES				
Repurchase of common shares for cancellation	–	(284,082)	–	(284,082)
Advances from (repayments of) credit facility, net	350,478	(47,971,512)	(461,997)	(2,801,143)
Interest paid	(2,510,379)	(282,993)	(4,129,952)	(1,920,987)
Dividends paid	(7,294,271)	(7,321,427)	(14,588,542)	(14,647,702)
	(9,454,172)	**(55,860,014)**	**(19,180,491)**	**(19,653,914)**
INVESTING ACTIVITIES				
Capital improvements to foreclosed properties held for sale	–	(59,703)	–	(59,703)
Proceeds from disposition of foreclosed properties held for sale	249,004	168,069	720,447	361,109
Fundings of mortgage investments, net of mortgage syndications	(77,299,962)	(78,486,046)	(136,644,863)	(152,570,121)
Discharges of mortgage investments, net of mortgage syndications	88,913,310	124,444,097	151,758,253	156,663,257
	11,862,352	**46,066,417**	**15,833,837**	**4,394,542**
Increase (decrease) in cash and cash equivalents	11,445,409	(695,797)	11,537,566	(463,092)
Cash and cash equivalents, beginning of period	232,028	695,797	139,871	463,092
Cash and cash equivalents, end of period	**$ 11,677,437**	**$ –**	**$ 11,677,437**	**$ –**

See accompanying notes to the condensed consolidated interim financial statements.

1. CORPORATE INFORMATION

Timbercreek Financial Corp. (the "Company", "TF" or "Timbercreek Financial"), formerly known as Timbercreek Mortgage Investment Corporation ("TMIC"), 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, 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 is 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 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 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 condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying condensed consolidated interim financial statements should be read in conjunction with the notes to the Company's consolidated financial statements for the year ended December 31, 2015, since these financial statements do not contain all disclosures required by IFRS for annual financial statements. These 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.

The condensed consolidated interim financial statements were approved by the Board of Directors on August 3, 2016.

(b) Principles of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund and Timbercreek Senior Mortgage Trust. The financial statements of the subsidiaries included in these 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) Critical accounting estimates, assumptions and judgments

In the preparation of these 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.

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 transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

There have been no other changes in the critical accounting estimates and judgments which were set out in detail in note 2 of the Company's consolidated financial statements for the year ended December 31, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same, except for its initial selection for its accounting policy for the Amalgamation, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS.

Business Combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum, at as the acquisition date, of the fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement, if applicable. Transaction and restructuring costs are expensed as incurred. The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their fair values as at the acquisition date. Goodwill, if any, is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) fair value of any existing equity interest in the acquiree, over the fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. a bargain purchase gain) is recognized in profit or loss immediately.

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 is 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 32,551,944 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 $15,154,400, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC. The allocation of the purchase price was based on preliminary valuation and estimates of assets and liabilities acquired; due to the timing of the acquisition and inherent complexity associated with the valuations. The purchase price allocation is subject to adjustment with the final to be completed during the remained of 2016.

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	$ 545,112,075
Other assets	605,644
Accounts payable and accrued expenses	(1,302,583)
Dividends payable	(1,572,558)
Due to Manager	(440,627)
Mortgage funding holdbacks	(15,443)
Prepaid mortgage interest	(504,352)
Credit facility	(181,649,522)
Mortgage syndication liabilities	(73,595,018)
Total net assets acquired	$ 286,637,616
Consideration transferred	
32,551,944 common shares issued	$ 271,483,216
Excess of net assets acquired over consideration transferred (bargain purchase gain)	$ 15,154,400

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 $7,438,418 (note 11) which was settled in cash of $909,616 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 $1,207,132 accrued for the period prior to the Amalgamation is payable to the Manager upon the termination of the management agreement and will be paid by TF subsequent to June 30, 2016 financial statements have been published. The new management agreement has a lower management 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 a result, TMIC's share of transaction costs relating to the Amalgamation was $1,573,239 and was accrued by TMIC prior to the Amalgamtion

Results related to TSMIC's mortgage portfolio are included in the financial results of the Company beginning June 30, 2016, the first day of the Amalgamation which are net interest income of $84,248 and total expenses of $30,459.

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's revenue for YTD 2016 would have been $36,263,752 and the net income the period would have been $28,288,713, inclusive of $4,722,775 of net non-recurring gains related to the Amalgamation.

5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

As at June 30, 2016	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (note 5(a) and (b))	$ 1,386,899,420	$ (493,004,090)	$ 893,895,330
Interest receivable	13,171,478	(1,478,811)	11,692,667
	1,400,070,898	(494,482,901)	905,587,997
Unamortized lender fees	(7,719,664)	1,017,746	(6,701,918)
Allowance for mortgage investments loss (note 5(c))	(1,150,000)	–	(1,150,000)
	$ 1,391,201,234	**$ (493,465,155)**	**$ 897,736,079**

As at December 31, 2015		Gross mortgage investments		Mortgage syndication liabilities		Net
Mortgage investments, including mortgage syndications (note 5(a) and (b))	$	749,225,216	$	(309,751,038)	$	439,474,178
Interest receivable		7,648,090		(1,113,951)		6,534,139
		756,873,306		(310,864,989)		446,008,317
Unamortized lender fees		(5,020,229)		816,339		(4,203,890)
Allowance for mortgage investments loss (note 5(c))		(1,150,000)		–		(1,150,000)
	$	**750,703,077**	**$**	**(310,048,650)**	**$**	**440,654,427**

As at June 30, 2016, unadvanced mortgage commitments under the existing gross mortgage investments amounted to $236,094,223 (December 31, 2015 – $119,887,655).

(a) Net mortgage investments

	%		June 30, 2016	%		December 31, 2015
Interest in first mortgages	81	$	724,563,512	78	$	342,572,965
Interest in non-first mortgages	19		169,331,818	22		96,901,213
	100	**$**	**893,895,330**	**100**	**$**	**439,474,178**

The mortgage investments are secured by real property and mature between 2016 and 2021 (December 31, 2015 – 2015 and 2018). The weighted average interest rate earned on net mortgage investments for the three and six months ended June 30, 2016 was 9.1% and 9.0% (three and six months ended June 30, 2015 – 9.2% and 9.2%).

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.

For the three and six months ended June 30, 2016 ("Q2 2016" and "YTD 2016"), the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of $1,188,573 and $2,121,735 and three and six months ended June 30, 2015 ("Q2 2015" and "YTD 2015" – $1,426,273 and $2,204,260), 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:

2016, balance of year	$	265,406,413
2017		336,244,364
2018		199,406,396
2019		47,885,065
2020		17,953,092
2021		27,000,000
Total	**$**	**893,895,330**

(b) 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 and therefore has not met the de-recognition criteria. As a result, the lender's portion of the mortgage 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. In addition, the Company may sell pari-pasu interests in certain mortgage investments which meet the criteria for de-recognition under IFRS.

As at June 30, 2016, the carrying value of the transferred assets in gross mortgage investments, including related interest receivable and unearned lender fees, and corresponding mortgage syndication liabilities is $493,465,155 (December 31, 2015 – $310,048,650). For Q2 2016 and YTD 2016, the Company has also recognized interest income of $4,476,536 and $7,960,298 (Q2 2015 –$2,711,980; YTD 2015 – $5,138,069) and fee income of $216,077 and $375,600 (Q2 2015–$258,668; YTD 2015 – $409,690) and a corresponding interest and fee expense of $4,692,613 and $8,335,899 (Q2 2015 –$2,970,648; YTD 2015 – $5,547,759 in the statements of net income and comprehensive income. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 15).

(c) Allowance for mortgage investments loss

As at June 30, 2016, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. For Q2 2016 and YTD 2016, no additional collective impairment was recognized (Q2 2015 – nil; YTD 2015 – nil).

As at June 30, 2016, the Company has recognized a specific impairment allowance of $900,000 (December 31, 2015 – $900,000) and a collective impairment allowance of $250,000 (December 31, 2015 –$250,000).

6. FORECLOSED PROPERTIES HELD FOR SALE

As at June 30, 2016, there are three foreclosed properties held for sale ("FPHFS") (December 31, 2015 – three) which are recorded at their fair value of $12,116,019 (December 31, 2015 – $12,836,466). The fair value has been categorized as a level 3 fair value, based on inputs to the valuation techniques used. The changes in the FPHFS during Q2 2016 and YTD 2016 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Balance, beginning of period	$ 12,365,023	$ 13,657,481	$ 12,836,466	$ 13,850,521
Capital improvements	–	59,703	–	59,703
Fair market value adjustment	–	(150,000)	–	(150,000)
Disposition of FPHFS	(249,004)	(168,069)	(720,447)	(361,109)
Balance, end of period	**$ 12,116,019**	**$ 13,399,115**	**$ 12,116,019**	**$ 13,399,115**

During YTD 2016, the Company closed on the sale of five residential units (YTD 2015 – two) in one of the foreclosed properties for net proceeds of $720,447 (YTD 2015 –$361,109).

7. CREDIT FACILITY

	June 30, 2016	December 31, 2015
Credit facility balance	$ 235,000,000	$ 53,812,475
Unamortized financing costs	(2,117,373)	(187,659)
Total credit facility	**$ 232,882,627**	**$ 53,624,816**

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement effective June 30, 2016. The new credit facility has an available credit limit of $350,000,000 (December 31, 2015 - $60,000,000) with interest at either the prime rate of interest plus 1.25% per annum (December 31, 2015 - prime rate of interest plus 1.50% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2015 - stamping fee of 2.50%). The new credit facility has a standby fee of 0.5625% per annum (December 31, 2015 – 0.55%) on the unutilized credit facility balance. The credit facility also includes an accordion feature that allows the available limit to be increased by up to a further $50,000,000, subject to certain conditions. The Company's maximum credit facility limit is subject to a borrowing base as defined in the new amended and restated credit agreement. The credit facility will mature in May 2018.

The Company incurred financing costs of $2,120,398 relating to the new credit facility, which includes upfront fees, amalgamation fees and legal 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 2016 and YTD 2016, included in financing costs is interest on the credit facility of $444,876 and $910,069 (Q2

2015 – $416,857; YTD 2015 – $649,992) and financing costs amortization of $154,767 and $216,882 (Q2 2015 – $60,428; YTD 2015 – $107,958).

8. CONVERTIBLE DEBENTURES

On February 25, 2014, TMIC completed a public offering of $30,000,000, with an overallotment option of $4,500,000 that was completed on March 3, 2014, of 6.35%, convertible unsecured subordinated debentures for net proceeds of $32,533,220 (the "debentures"). The debentures mature on March 31, 2019 with interest payable 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.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 6.35% unsecured convertible debentures due March 2019 in the aggregate principal amount of $34,500,000.

The debentures will not be redeemable prior to March 31, 2017. On and after March 31, 2017 and prior to March 31, 2018, the debentures will be redeemable by the Company, 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 on not more than 60 days' and not less than 30 days' prior written notice, provided that the current market price as of the date on which notice of redemption is given is not less than 125% of the conversion price. On and after March 31, 2018 and prior to the maturity date, the debentures will be redeemable, 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 to, but excluding, the date of redemption on not more than 60 days' and not less than 30 days' prior written notice.

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 of $577,478 has been recorded as equity, with the remaining $31,955,742 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 $34,500,000. The issue costs of $1,966,780 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 allocated as follows:

	June 30, 2016	December 31, 2015
Issued	$ 34,500,000	$ 34,500,000
Issue costs, net of amortization	(1,206,939)	(1,386,828)
Equity component	(577,478)	(577,478)
Issue costs attributed to equity component	32,921	32,921
Cumulative accretion	266,078	209,572
Debentures, end of period	**$ 33,014,582**	**$ 32,778,187**

Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For Q2 2016 and YTD 2016, 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,	
	2016	2015	2016	2015
Interest on the convertible debentures	$ 547,687	$ 547,687	$ 1,095,375	$ 1,084,872
Amortization of issue costs	91,138	95,774	179,890	190,496
Accretion of the convertible debentures	28,253	28,253	56,505	56,195
Total	**$ 667,078**	**$ 671,714**	**$ 1,331,770**	**$ 1,331,563**

9. COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. Common shares are publicly listed on the TSX under the symbol 'TF'. Holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

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 32,551,944 TF common shares were issued to shareholders of TSMIC at an exchange ratio of 1.035. For financial reporting purposes, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC note 4.

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

	Six months ended June 30,	
	2016	**2015**
Balance, beginning of period	40,523,728	40,701,528
Common shares issued as part of acquisition of TSMIC (note 4)	32,551,941	–
Common shares issued to the Manager (note 11)	782,830	–
Repurchased under normal course issuer bid	–	(37,400)
Repurchased under dividend reinvestment plan	(187,564)	(191,554)
Issued under dividend reinvestment plan	187,564	191,554
Balance, end of period	**73,858,499**	**40,664,128**

(a) Dividend reinvestment plan

In connection with the Amalgamation, the dividend reinvestment plan (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 have 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 in additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The Manager could elect to purchase common shares on the open market or issue common shares from treasury. During Q2 2016 and YTD 2016, 91,475 and 187,564 common shares were purchased on the open market (Q2 2015 – 98, 223; YTD 2015 – 191,554).

(b) Dividends to holders of common shares

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. During Q2 2016 and YTD 2016, TMIC declared dividends of $7,294,271 and $14,588,542, or $0.18 and $0.36 per share, to the holders of TMIC common shares (Q2 2015 – $7,321,427, $0.180 per share; YTD 2015 – $14,645,458, $0.360 per share). As at June 30, 2016, $4,003,981 in aggregate dividends (December 31, 2015 – $2,431,424) was payable to the holders of common shares of TMIC and TSMIC by the Company. Subsequent to June 30, 2016, the Board of Directors of the Company declared dividends of $0.057 per common share to be paid on August 15, 2016 to the common shareholders of record on July 29, 2016.

(c) Normal course issuer bid

On January 4, 2016, TMIC received TSX approval to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,105,569 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced on January 6, 2016 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on January 5, 2017, or such earlier date as the Bid is complete. During YTD 2016, the Company did not acquire any common shares for cancellation (YTD 2015 – 37,400 common shares at a cost of $284,082). Pursuant to the Amalgamation, the Bid was terminated on the Effective Date.

10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

During Q2 2016 and YTD 2016, TMIC issued 7,040 and 13,475 deferred share units ('DSU') (Q2 2015 – 5,629; YTD 2015 – 5,629) respectively.

Pursuant to the Amalgamation, on the Effective Date, the 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 outstanding DSUs of 30,497 were cancelled and $300,214 is payable to the directors of TMIC on June 30, 2016. In July 2016, the directors of TMIC were paid the outstanding amounts.

In July 2016, the Company has adopted a new DSU plan with substantially similar features to the TMIC DSU plan.

11. MANAGEMENT AND PERFORMANCE 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 $7,438,418 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 $909,616 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 management fee equals to (i) 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes, and (ii) a servicing fee equal to 0.10% of the amount of any senior tranche of a mortgage asset 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 is defined 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.

Performance fees of $1,207,132 accrued for the period prior to the Amalgamation is payable to the Manager upon the termination of the management agreement and will be paid after the June 30, 2016 financial statements have been reported.

For Q2 2016 and YTD 2016, the Company incurred management fees of $1,559,351 and $3,119,715 (Q2 2015 – $1,517,833; YTD 2015 – $2,975,714) which includes $24,832 accrued under the new management fee agreement.

During Q2 2016 and YTD 2016, the performance fee accrued by TMIC under the management agreement prior to the Amalgamation, was $609,679 and $1,207,132 (Q2 2015 –$716,691; YTD 2015 – $1,258,854).

12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income and comprehensive income by the weighted average number of common shares during the period. Diluted earnings per share are calculated by adding back the interest expense relating to the debentures to 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 April 1, 2016 and January 1, 2016 during the period.

The following table shows the computation of per share amounts:

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income and comprehensive income	$ 13,341,832	$ 7,722,252	$ 20,518,121	$ 14,956,013
Adjustment for dilutive effect of convertible debentures	667,078	671,714	1,331,770	1,331,563
Net income and comprehensive income (diluted)	14,008,910	8,393,966	21,849,891	16,287,576
Weighted average number of common shares (basic)	40,890,044	40,664,128	40,706,886	40,681,999
Convertible debentures	3,066,667	3,066,667	3,066,667	3,066,667
Weighted average number of common shares (diluted)	43,956,711	43,730,795	43,773,553	43,748,666
Earnings per share – basic	**$ 0.33**	**$ 0.19**	**$ 0.50**	**$ 0.37**
Earnings per share – diluted	**$ 0.32**	**$ 0.19**	**$ 0.50**	**$ 0.37**

13. RELATED PARTY TRANSACTIONS

(a) As at June 30, 2016, due to Manager includes management and performance fees payable of $2,164,542 (December 31, 2015 – $2,425,700) and $18,193 (December 31, 2015 – nil) related to costs paid by the Manager on behalf of the Company.

(b) As at June 30, 2016, included in other assets is $1,683,229 (December 31, 2015 – $2,188,556) of cash held in trust by Timbercreek Mortgage Servicing Inc., 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, 2016, the Company has three 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 $84,108,000 (December 31, 2015 – $84,108,000). The Company's share of the commitment is $29,108,000 (December 31, 2015 – $14,918,000), of which $5,573,546 (December 31, 2015 – $1,693,857) has been funded as at June 30, 2016.

- A mortgage investment with a total gross commitment of $15,600,000 (December 31, 2015 – $13,250,000). The Company's share of the commitment is $5,970,123 (December 31, 2015 –$5,070,778), of which $3,635,652 (December 31, 2015 –$3,635,652) has been funded as at June 30, 2016.

- A mortgage investment with a total gross commitment of $6,000,000 (December 31, 2015 – nil). The Company's share of the commitment is $5,100,000 (December 31, 2015 – nil), of which $1,817,665 (December 31, 2015 – nil) has been funded as at June 30, 2016.

(d) In addition to the above related party transactions, the Company has transacted with other funds managed by the Manager, or one of its subsidiaries. As at June 30, 2016, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments totaling $234,817,063 (December 31, 2015 – $702,623,518). As at June 30, 2016, the Company's share in these gross mortgage investments is $103,486,455 (December 31, 2015 – $286,310,931). Included in these amounts are two (December 31, 2015 – one) net mortgage investments of $17,312,582 (December 31, 2015 – $1,265,625) 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.

14. FAIR VALUE MEASUREMENTS

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

As at June 30, 2016	Carrying Value Loans and receivable	Carrying Value Fair value through profit and loss	Carrying Value Other financial liabilities	Fair value
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 12,116,019	$ –	$ 12,116,019
Assets not measured at fair value				
Cash and cash equivalents	11,677,437	–	–	11,677,437
Other assets	2,656,530	–	–	2,656,530
Mortgage investments, including mortgage syndications	1,391,201,234	–	–	1,391,201,234
Financial liabilities not measured at fair value				
Accounts payable and accrued expenses	–	–	4,147,828	4,147,828
Dividends payable	–	–	4,003,981	4,003,981
Due to Manager	–	–	2,182,735	2,182,735
Mortgage funding holdbacks	–	–	740,772	740,772
Prepaid mortgage interest	–	–	942,457	942,457
Credit facility	–	–	232,882,627	232,882,627
Convertible debentures	–	–	33,014,582	35,276,250
Mortgage syndication liabilities	–	–	493,465,155	493,465,155

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

(a) Mortgage investments and mortgage syndication liabilities

There is no quoted price in an active market for the mortgage investments or mortgage syndication liabilities. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgage investments 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 is based on level 3 inputs.

(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 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 Q2 2016 and YTD 2016.

15. 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.

16. SUBSEQUENT EVENTS

On July 29, 2016, the Company closed on an unsecured convertible debenture offering for gross proceeds of $40,000,000. The unsecured convertible debentures mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31 of each year at rate of 5.40%. On August 3, 2016, the underwriters exercised the over-allotment option for an additional $5,800,000 which is expected to close on August 5, 2016.