

Condensed Consolidated  
Interim Financial Statements of

# Timbercreek Mortgage Investment Corporation

Three months and six months ended June 30, 2015 and 2014



# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ —	\$ 463,092
Other assets (note 13(b))	2,376,156	3,582,038
Mortgage investments, including mortgage syndications (note 5)	682,982,002	616,173,629
Foreclosed properties held for sale (note 6)	13,399,115	13,850,521
<b>Total assets</b>	<b>\$ 698,757,273</b>	<b>\$ 634,069,280</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued expenses	\$ 866,703	\$ 855,527
Dividends payable (note 9(b))	2,439,848	2,442,092
Due to Manager (note 13(a))	1,262,527	1,975,958
Mortgage funding holdbacks	768,233	483,762
Prepaid mortgage interest	1,040,099	2,560,472
Credit facility (note 7)	5,973,910	8,836,959
Convertible debentures (note 8)	32,634,148	32,387,457
Mortgage syndication liabilities (note 5)	288,799,311	219,581,032
<b>Total liabilities</b>	<b>333,784,779</b>	<b>269,123,259</b>
<b>Shareholders' equity</b>	<b>364,972,494</b>	<b>364,946,021</b>
<b>Total liabilities and equity</b>	<b>\$ 698,757,273</b>	<b>\$ 634,069,280</b>
Commitments and contingencies (notes 5 and 15)		
Subsequent event (note 9(b))		

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Interest income:				
Interest, including mortgage syndications	\$ 12,576,503	\$ 9,317,827	\$ 24,428,601	\$ 18,080,247
Fees and other income, including mortgage syndications	1,926,573	1,107,149	3,147,611	2,411,828
Gross interest income	14,503,076	10,424,976	27,576,212	20,492,075
Interest and fees expense on mortgage syndications (note 5(b))	(2,970,648)	(960,271)	(5,547,759)	(2,216,130)
Net interest income	11,532,428	9,464,705	22,028,453	18,275,945
Expenses:				
Management fees (note 11)	1,517,833	1,390,452	2,975,714	2,629,699
Performance fees (note 11)	716,691	451,172	1,258,854	785,509
Provision for mortgage investments loss (note 5(c))	–	–	–	250,000
General and administrative	246,954	207,295	486,232	394,505
Total expenses	2,481,478	2,048,919	4,720,800	4,059,713
Income from operations	9,050,950	7,415,786	17,307,653	14,216,232
Net operating loss from foreclosed properties held for sale	29,699	97,132	112,127	194,194
Fair value adjustment on foreclosed properties held for sale (note 6)	150,000	–	150,000	–
Financing costs:				
Interest on credit facility (note 7)	477,285	57,121	757,950	121,318
Interest on convertible debentures (note 8)	671,714	664,368	1,331,563	907,566
Total financing costs	1,148,999	721,489	2,089,513	1,028,884
<b>Net income and comprehensive income</b>	<b>\$ 7,722,252</b>	<b>\$ 6,597,165</b>	<b>\$ 14,956,013</b>	<b>\$ 12,993,154</b>
<b>Earnings per share (note 12)</b>				
Basic and diluted	\$ 0.19	\$ 0.17	\$ 0.37	\$ 0.34

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

<b>Six months ended June 30, 2015</b>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
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
<b>Shareholders' equity, end of period</b>	<b>\$ 370,263,356</b>	<b>\$ (5,835,419)</b>	<b>\$ 544,557</b>	<b>\$ 364,972,494</b>

<b>Six months ended June 30, 2014</b>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
Shareholders' equity, beginning of period	\$ 337,367,498	\$ (799,787)	\$ -	\$ 336,567,711
Issuance of common shares, net	33,060,799	-	-	33,060,799
Equity component of convertible debentures, net	-	-	545,418	545,418
Dividends	-	(15,610,775)	-	(15,610,775)
Issuance of common shares under dividend reinvestment plan	1,517,709	-	-	1,517,709
Repurchase of common shares under dividend reinvestment plan	(1,517,709)	-	-	(1,517,709)
Net income and comprehensive income	-	12,993,154	-	12,993,154
<b>Shareholders' equity, end of period</b>	<b>\$ 370,428,297</b>	<b>\$ (3,417,408)</b>	<b>\$ 545,418</b>	<b>\$ 367,556,307</b>

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
<b>OPERATING ACTIVITIES</b>				
Net income and comprehensive income	\$ 7,722,252	\$ 6,597,165	\$ 14,956,013	\$ 12,993,154
Amortization of lender fees	(1,644,449)	(972,164)	(2,706,530)	(1,950,452)
Lender fees received	1,426,273	1,106,333	2,204,260	1,775,094
Provision for mortgage investments loss	–	–	–	250,000
Financing costs	1,148,999	721,489	2,089,513	1,028,884
Net foreign exchange loss	–	30,385	–	33,456
Fair value adjustment on foreclosed properties held for sale	150,000	–	150,000	–
Change in non-cash operating items:				
Interest receivable	(312,215)	(71,557)	(1,180,961)	(932,608)
Other assets	805,189	(1,774,599)	1,205,882	(2,004,706)
Accounts payable and accrued expenses	(101,573)	48,344	27,435	(52,759)
Due to Manager	712,203	494,294	(713,431)	(1,091,205)
Prepaid mortgage interest	(795,971)	929,782	(1,520,372)	1,137,087
Mortgage funding holdbacks	(12,908)	(10,289)	284,471	(10,289)
	<b>9,097,800</b>	<b>7,099,183</b>	<b>14,796,280</b>	<b>11,175,656</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issuance of convertible debentures, net of issue costs	–	(321,055)	–	32,581,584
Proceeds from issuance of common shares, net of issue costs	–	33,060,800	–	33,060,800
Repurchase of common shares for cancellation	(284,082)	–	(284,082)	–
Advances from (repayments of) credit facility, net	(47,971,512)	–	(2,801,143)	–
Interest paid	(282,993)	(37,664)	(1,920,987)	(57,210)
Dividends paid	(7,321,427)	(7,930,595)	(14,647,702)	(15,360,366)
	<b>(55,860,014)</b>	<b>24,771,486</b>	<b>(19,653,914)</b>	<b>50,224,808</b>
<b>INVESTING ACTIVITIES</b>				
Capital improvements to foreclosed properties held for sale	(59,703)	–	(59,703)	(70,456)
Proceeds from disposition of foreclosed properties held for sale	168,069	339,004	361,109	339,004
Fundings of mortgage investments, net of mortgage syndications	(78,486,046)	(115,109,838)	(152,570,121)	(187,294,053)
Discharges of mortgage investments, net of mortgage syndications	124,444,097	126,485,751	156,663,257	172,695,193
	<b>46,066,417</b>	<b>11,714,917</b>	<b>4,394,542</b>	<b>(14,330,312)</b>
Increase (decrease) in cash and cash equivalents	(695,797)	43,585,586	(463,092)	47,070,152
Cash and cash equivalents, beginning of period	695,797	15,833,015	463,092	12,348,449
<b>Cash and cash equivalents, end of period</b>	<b>\$ –</b>	<b>\$ 59,418,601</b>	<b>\$ –</b>	<b>\$ 59,418,601</b>

See accompanying notes to the condensed consolidated interim financial statements.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

### 1. CORPORATE INFORMATION

Timbercreek Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 1000 Yonge Street, Suite 500, Toronto, Ontario M4W 2K2. The Company is incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol 'TMC'.

The investment objective of the Company is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage investments that generate income which allows the Company to pay monthly dividends to shareholders.

The Company has entered into a management agreement with Timbercreek Asset Management Inc. (the "Manager") dated September 13, 2013. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services to the Company.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 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, 2014, 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 10, 2015.

#### (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. All intercompany transactions and balances are eliminated upon consolidation.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2014, which were prepared in accordance with IFRS.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

**Non-executive director deferred share unit plan**

Commencing January 1, 2015, the Company's non-executive directors are participating in a deferred share unit plan (the "Plan") which allows the directors to elect to receive their compensation in the form of deferred share units ("DSUs"). The benefit resulting from the grant of DSUs under the Plan is recorded in profit and loss when awarded. DSUs granted are included within accrued expenses based on the fair market value of the DSUs on the date of grant and are subsequently measured at each reporting date at their fair value with changes in the carrying amount recognized in profit and loss.

**4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

In the preparation of these condensed consolidated interim financial statements, the Manager has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. There have been no 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, 2014.

**5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS**

<b>As at June 30, 2015</b>	<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications (a) and (b)	\$ 682,050,893	\$ (288,803,274)	\$ 393,247,619
Interest receivable	6,533,204	(960,347)	5,572,857
	688,584,097	(289,763,621)	398,820,476
Unamortized lender fees	(5,352,095)	964,310	(4,387,785)
Allowance for mortgage investments loss (c)	(250,000)	-	(250,000)
	<b>\$ 682,982,002</b>	<b>\$ (288,799,311)</b>	<b>\$ 394,182,691</b>

<b>As at December 31, 2014</b>	<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications (a) and (b)	\$ 617,038,177	\$ (219,697,422)	\$ 397,340,755
Interest receivable	5,125,457	(733,560)	4,391,897
	622,163,634	(220,430,982)	401,732,652
Unamortized lender fees	(5,740,005)	849,950	(4,890,055)
Allowance for mortgage investments loss (c)	(250,000)	-	(250,000)
	<b>\$ 616,173,629</b>	<b>\$ (219,581,032)</b>	<b>\$ 396,592,597</b>

As at June 30, 2015, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$170,414,949 (December 31, 2014 – \$107,366,854).

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

### (a) Net mortgage investments

	%	June 30, 2015	%	December 31, 2014
Interest in first mortgages	72	\$ 281,760,623	69	\$ 276,022,401
Interest in non-first mortgages	28	111,486,996	31	121,318,354
	<b>100</b>	<b>\$ 393,247,619</b>	<b>100</b>	<b>\$ 397,340,755</b>

The mortgage investments are secured by real property, bear interest at a weighted average interest rate of 9.3% as at June 30, 2015 (December 31, 2014 – 9.4%) and mature between 2015 and 2018 (December 31, 2014 – 2015 and 2018).

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, 2015 (“Q2 2015” and “YTD 2015”), the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$1,426,273 and \$2,204,260 (three and six months ended June 30, 2014 (“Q2 2014” and “YTD 2014”) – \$1,106,333 and \$1,775,094), 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:

2015, balance of year	\$ 100,297,475
2016	143,846,041
2017	97,523,860
2018	51,580,243
<b>Total</b>	<b>\$ 393,247,619</b>

### (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.



## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

As at June 30, 2015, 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 \$288,799,311 (December 31, 2014 – \$219,581,032). For Q2 2015 and YTD 2015, the Company has also recognized interest income of \$2,711,980 and \$5,138,069 (Q2 2014 – \$919,072; YTD 2014 – \$1,994,929) and fee income of \$258,668 and \$409,690 (Q2 2014 – \$41,199; YTD 2014 – \$221,201) and a corresponding interest and fee expense of \$2,970,648 and \$5,547,759 (Q2 2014 – \$960,271; YTD 2014 – \$2,216,130) 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 14).

**(c) Allowance for mortgage investments loss**

As at June 30, 2015, 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 2015 and YTD 2015, the Company has not recognized any additional collective impairment allowance (Q2 2014 – nil; YTD 2014 – \$250,000) nor any specific impairment allowance (Q2 2014 – nil; YTD 2014 – nil).

During YTD 2014, the Company foreclosed on the underlying security relating to one impaired mortgage investment and reclassified \$550,000 from allowance for mortgage investments loss to foreclosed properties held for sale ("FPHFS").

The changes in the allowance for mortgage investments loss during the three and six months ended June 30, 2015 and 2014 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 250,000	\$ 250,000	\$ 250,000	\$ 550,000
Provision for mortgage investments loss	–	–	–	250,000
Allowance for mortgage investments loss reclassified to FPHFS	–	–	–	(550,000)
<b>Balance, end of period</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

**6. FORECLOSED PROPERTIES HELD FOR SALE**

As at June 30, 2015, there are three FPHFS (December 31, 2014 – three) which are recorded at their fair value of \$13,399,115 (December 31, 2014 – \$13,850,521). 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 the three and six months ended June 30, 2015 and 2014 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	\$ 13,657,481	\$ 15,752,873	\$ 13,850,521	\$ 11,351,435
Foreclosed properties reclassified from mortgage investments	–	–	–	4,330,982
Capital improvements	59,703	–	59,703	70,456
Fair market value adjustment	(150,000)	–	(150,000)	–
Disposition of foreclosed properties	(168,069)	(339,004)	(361,109)	(339,004)
<b>Balance, end of period</b>	<b>\$ 13,399,115</b>	<b>\$ 15,413,869</b>	<b>\$ 13,399,115</b>	<b>\$ 15,413,869</b>

During YTD 2015, the Company closed on the sale of two (YTD 2014 – two) residential units in one of the foreclosed properties for net proceeds of \$361,109 (YTD 2014 – \$339,004). During the Q2 2015, the Company has recorded a fair market value adjustment on the FPHFS of \$150,000 (Q2 2014 – nil) on its Montreal, QC property for disposition costs.

**7. CREDIT FACILITY**

The Company has a credit facility with a syndicate of lenders with an available limit of \$60,000,000 (December 31, 2014 – \$35,000,000). On January 30, 2015, the Company completed a \$15,000,000 increase of the credit facility, taking its total available borrowing limit to \$50,000,000. On March 24, 2015, the Company executed the accordion feature of the amended and restated credit facility, increasing the available borrowing limit to \$60,000,000. The credit facility bears interest at either the prime rate of interest plus 1.5%, or bankers' acceptances ("BA") with a stamping fee of 2.5% of the face amount of such BA. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on October 31, 2016. As at June 30, 2015, \$6,274,783 was outstanding on the credit facility (December 31, 2014 – \$9,075,926).

Interest costs related to the credit facility are recorded in financing costs using the effective interest rate method. For Q2 2015 and YTD 2015, interest on the credit facility of \$477,285 and \$757,950 (Q2 2014 – \$57,121; YTD 2014 – \$121,318) is included in financing costs.

As at June 30, 2015, there were \$300,873 (December 31, 2014 – \$238,967) in unamortized financing costs related to the placement of the credit facility netted against the outstanding credit facility balance. For Q2 2015 and YTD 2015, the Company has amortized financing costs of \$60,428 and \$107,958 (Q2 2014 – \$31,261; YTD 2014 – \$62,521) to interest expense using the effective interest rate method.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

**8. CONVERTIBLE DEBENTURES**

On February 25, 2014, the Company 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.

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:

	<b>June 30, 2015</b>
Issued	\$ 34,500,000
Issue costs, net of amortization	(1,473,740)
Equity component	(577,478)
Issue costs attributed to equity component	32,921
Cumulative accretion of equity component	152,445
<b>Debentures, end of period</b>	<b>\$ 32,634,148</b>

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

Interest costs related to the 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,	
	2015	2014	2015	2014
Interest on the convertible debentures	\$ 547,687	\$ 546,187	\$ 1,084,872	\$ 756,260
Amortization of issue costs	95,774	89,306	190,496	112,806
Accretion of equity component of the convertible debentures	28,253	28,875	56,195	38,500
<b>Total</b>	<b>\$ 671,714</b>	<b>\$ 664,368</b>	<b>\$ 1,331,563</b>	<b>\$ 907,566</b>

## 9. COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. Common shares are publicly listed on the Toronto Stock Exchange (the "TSX") under the symbol 'TMC'. 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.

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

	Six months ended June 30,	
	2015	2014
Balance, beginning of period	40,701,528	36,964,028
Issued	–	3,737,500
Repurchased under normal course issuer bid	(37,400)	–
Repurchased under dividend reinvestment plan	(191,554)	(161,725)
Issued under dividend reinvestment plan	191,554	161,725
<b>Balance, end of period</b>	<b>40,664,128</b>	<b>40,701,528</b>

### (a) Dividend reinvestment plan

The Company's dividend reinvestment plan (the "DRIP") provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. During Q2 2015 and YTD 2015, 98,223 and 191,554 common shares were purchased on the open market (Q2 2014 – 84,214; YTD 2014 – 161,725 common shares purchased on the open market).

## Notes to the Condensed Consolidated Interim Financial Statements

### Three and six months ended June 30, 2015 and 2014

#### (b) Dividends

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. During Q2 2015 and YTD 2015, the Company declared dividends of \$7,321,427 and \$14,645,458, or \$0.180 and \$0.360 per share (Q2 2014 – \$8,181,007, \$0.201 per share; YTD 2014 – \$15,610,775, \$0.402 per share). As at June 30, 2015, \$2,439,848 (December 31, 2014 – \$2,442,092) was payable to the holders of common shares. Subsequent to June 30, 2015, the Board of Directors declared dividends of \$0.060 per common share, totalling \$2,439,848, to be paid on August 14, 2015 to the holders of common shares of record on July 31, 2015.

#### (c) Normal course issuer bid

On November 13, 2014, the Company received the approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,052,822 common shares, representing approximately 10% of the public float of common shares as of November 11, 2014. The Bid commenced on November 17, 2014 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on November 16, 2015, or such earlier date as the Bid is complete. During YTD 2015, the Company acquired 37,400 common shares for cancellation at a cost of \$284,082.

## 10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan, whereby up to 100% of the compensation for a director may be paid in the form of DSUs, credited quarterly in arrears. Directors may elect annually, in accordance with the Plan, as to how much (if any) of the compensation will be paid in DSUs, having regard at all times to the ownership guidelines of the Plan. 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 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"). DSUs granted entitle the directors to also accumulate DSUs equal to the monthly cash dividends, assuming the reinvestment of the dividends into units is based upon 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 number of DSUs that is equal to the result of multiplying 25% of the DSU 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 of one common share as of the 24<sup>th</sup> business day after publication of the condensed consolidated interim financial statements following a director's departure from the Board of Directors.

For the six months ended June 30, 2015, the directors, on average, have elected to receive 94% of their quarterly compensation in DSUs. For Q2 2015 and YTD 2015, 5,629 and 5,629 DSUs were issued and outstanding and no DSUs were exercised or cancelled. For YTD 2015, DSU expense was \$46,604 based on the Fair Market Value of \$8.28 per common share.

## Notes to the Condensed Consolidated Interim Financial Statements

### Three and six months ended June 30, 2015 and 2014

As at June 30, 2015, the fair value of the outstanding DSUs amounted to \$46,604 and is included in accrued expenses.

#### 11. MANAGEMENT AND PERFORMANCE FEES

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. Under the management agreement, the Company shall pay to the Manager, a management fee equal to 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. 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. The initial term of the management agreement is 10 years from September 13, 2013 and is automatically renewed for successive five year terms at the expiration of the initial term. For Q2 2015 and YTD 2015, the Company incurred management fees of \$1,517,833 and \$2,975,714 (Q2 2014 – \$1,390,452; YTD 2014 – \$2,629,699).

Under the management agreement, the Manager is entitled to a performance fee. In any calendar year where the Company has net earnings available for distribution to shareholders in excess of the hurdle rate (the "Hurdle Rate"), which is defined as the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points, the Manager is entitled to receive from the Company a performance fee equal to 20% of the net earnings of the Company available to distribute over the Hurdle Rate, plus applicable taxes. The net earnings of the Company shall mean the net income before performance fees of the Company in accordance with applicable accounting principles and adjusted for certain other non-cash adjustments as defined in the management agreement. The performance fee is payable to the Manager within 15 days of the issuance of the Company's audited annual consolidated financial statements for that calendar year. The performance fee accrued for Q2 2015 and YTD 2015 is \$716,691 and \$1,258,854 (Q2 2014 – \$451,172; YTD 2014 – \$785,509).

#### 12. EARNINGS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Numerator for earnings per share:				
Net income and comprehensive income	\$ 7,722,252	\$ 6,597,165	\$ 14,956,013	\$ 12,993,154
Denominator for earnings per share:				
Weighted average number of common shares (basic and diluted)	40,664,128	39,756,885	40,681,999	38,368,172
<b>Earnings per share – basic and diluted</b>	<b>\$ 0.19</b>	<b>\$ 0.17</b>	<b>\$ 0.37</b>	<b>\$ 0.34</b>

## Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

**13. RELATED PARTY TRANSACTIONS**

- (a) As at June 30, 2015, due to Manager includes management and performance fees payable of \$1,262,527 (December 31, 2014 – \$1,970,131) and no amounts payable (December 31, 2014 – \$5,827) related to costs incurred by the Manager on behalf of the Company.
- (b) As at June 30, 2015, included in other assets is \$1,845,448 (December 31, 2014 – \$3,044,234) 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, prepaid mortgage interest and lender fees received from various borrowers.
- (c) In addition to the above related party transactions, the Company has transacted with other funds managed by the Manager, which are as follows:
- i. As at June 30, 2015, the Company, Timbercreek Senior Mortgage Investment Corporation ("TSMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments totalling \$730,852,971 (December 31, 2014 – \$701,930,591). During the six months ended June 30, 2015, the Company, along with its related parties, funded \$184,629,827 in co-invested gross mortgage investments and received repayments of \$155,707,447. As at June 30, 2015, the Company's share in these gross mortgage investments is \$247,916,577 (December 31, 2014 – \$268,906,244). Included in these amounts is a net mortgage investment of \$1,223,739 (December 31, 2014 – \$1,147,226) 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.

## Notes to the Condensed Consolidated Interim Financial Statements

### Three and six months ended June 30, 2015 and 2014

#### 14. FAIR VALUE MEASUREMENTS

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

As at June 30, 2015	Carrying Value			Fair value
	Loans and receivable	FVTPL	Other financial liabilities	
<b>Assets measured at fair value</b>				
Foreclosed properties held for sale	\$ –	\$ 13,399,115	\$ –	\$ 13,399,115
<b>Assets not measured at fair value</b>				
Other assets	2,376,156	–	–	2,376,156
Mortgage investments, including mortgage syndications	682,982,002	–	–	682,982,002
<b>Financial liabilities not measured at fair value</b>				
Accounts payable and accrued expenses	–	–	866,703	866,703
Dividends payable	–	–	2,439,848	2,439,848
Due to Manager	–	–	1,262,527	1,262,527
Mortgage funding holdbacks	–	–	768,233	768,233
Prepaid mortgage interest	–	–	1,040,099	1,040,099
Credit facility	–	–	5,973,910	5,973,910
Convertible debentures	–	–	32,634,148	35,448,750
Mortgage syndication liabilities	–	–	288,799,311	288,799,311

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.



Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2015 and 2014

**(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 Q2 2015 and YTD 2015.

**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.